



Competitive and Cooperative Federalism

For Prelims: [Competitive and Cooperative Federalism](#), [Finance Commission \(FC\)](#), [Goods and Services Tax \(GST\)](#), [Seventh Schedule](#), [Inter-State Council](#), [Zonal Councils](#), [NMM](#), [IIPDF](#), [B-READY Program](#), [GST Council](#).

For Mains: Role of competitive and cooperative Federalism in strengthening the Indian economy.

[Source: BL](#)

Why in News?

The government has emphasized various **initiatives** to foster [competitive and cooperative federalism](#) and its **benefits**.

What is Competitive and Cooperative Federalism?

- **Competitive Federalism:** It is a system of horizontal (state-state) and vertical (Centre-state) competition to attract investment, improve governance, and enhance services.
 - The 15th [Finance Commission \(FC\)](#) has introduced indicators like tax & fiscal efforts to evaluate state performance, that determines fund allocation.
 - **State-Level Reforms:** Examples of **state-specific welfare schemes** that operate alongside central schemes include:
 - **Rythu Bandhu (Telangana):** A direct income support scheme for farmers.
 - **KALIA (Odisha):** A farmer assistance scheme complementing the central **PM Kisan Yojana**.
 - **Vibrant Gujarat Summit:** Focused on attracting global investment.
- **Cooperative Federalism:** It fosters **Centre-state collaboration** for effective governance, balanced development, and shared best practices.
 - FC's **performance-based fund allocation** encourages states to work in alignment with **national SDGs**.
 - Key examples include the [Goods and Services Tax \(GST\)](#), [Ayushman Bharat](#), and [PM-KISAN](#), that require **Centre-state cooperation**.
 - The All India Services (**IAS** and **IPS**) enable a uniform governance structure across states.
 - The [States Reorganization Act, 1956](#) established five [Zonal Councils](#) for regional cooperation, facilitating discussions on inter-state issues.
- **Constitutional Provisions:**
 - **7th Schedule:** The [Seventh Schedule](#) of the Indian Constitution divides **legislative powers** between the Centre and states for effective governance.
 - **Full Faith and Credit Clause (Article 261):** It ensures recognition of **public acts, records, and judicial proceedings** across states, promoting legal and administrative

uniformity.

- **Inter-State Council (ISC):** The [ISC](#), established under **Article 263**, resolves intergovernmental disputes and became a permanent body on **28th May 1990**, per **Sarkaria Commission** recommendations.
- **Inter-State Water Disputes (Article 262):** **Parliament** has the power to adjudicate [inter-state water disputes](#).

What are the Benefits of Competitive and Cooperative Federalism?

▪ Competitive Federalism:

- **Economic Efficiency:** It allows states to design policies **tailored to their local needs**, leading to increased investment, job creation, and overall economic growth.
- **Policy Innovation:** States compete by experimenting with **governance models**, regulatory frameworks, and public service **delivery systems**, leading to innovative policy solutions and best practices.
- **Fiscal Discipline:** It strengthens **fiscal discipline**, as states must balance **revenue generation** with **expenditure management** to attract businesses and investors, ensuring responsible fiscal policies.
- **Public Service Quality:** Competition among states pushes them to **improve public service quality** like **infrastructure, education, healthcare**, and other essential services to retain skilled workers and businesses.

▪ Cooperative Federalism:

- **Balanced Regional Development:** It helps in **reducing regional disparities** and ensuring equitable development across states by fostering collaboration between central and state governments.
- **Facilitates Resource Sharing:** Joint initiatives in areas such as **infrastructure, disaster management, and environmental protection** ensure efficient resource utilization and prevent unnecessary duplication of efforts.

What are the Challenges in Competitive and Cooperative Federalism in India?

▪ Competitive Federalism:

- **Quasi-Federalism:** The Union holds **superior legislative powers** through residuary list and precedence in the concurrent list, often **overriding state authority** and creating **conflicting federalism**.
- **Taxation Disputes:** Most taxation disputes have been resolved in **favor of the Centre** due to constitutional provisions that grant it **more control over revenue distribution**.
 - **GST** reduced state taxation powers, **surrendering octroi, entry, luxury, and entertainment taxes**.
- **Unchecked Competition:** In India, competition often takes a **Tughlakian turn**, States **undercut each other with reckless subsidies** while **bureaucratic hurdles** remain firmly intact that **negates reforms benefits**.
 - Unchecked competition can lead to **excessive tax breaks, fiscal mismanagement**, and subsidy dependence, risking stability.
- **Conflict Between FC and GST Council:** **Article 269A(1)** empowers the [GST Council](#) to recommend **tax-sharing** for inter-state trade, but **Articles 270(1A) and 270(2)** states that the taxes levied under the **GST** laws will be **shared** as per recommendation of the **FC, not the GST Council**.
 - This **imbalance** both **cooperative federalism (GST)** and **competitive federalism (FC)**.

▪ Cooperative Federalism:

- **Inequitable Distribution of Central Tax Revenue:** States like **West Bengal, Assam, Bihar, and Odisha** argue that uniform funding ignores economic disparities and seek **special financial aid** for growth and investment.

- **Wealthier states** attract more investment due to **better infrastructure, skilled labor, and capital**, while weaker states lag behind.

What are Various Initiatives to Promote Competitive and Cooperative Federalism?

- **Investment Friendliness Index (IFI):** IFI will be launched in **2025** to provide a transparent benchmark to **assess states'** investment attractiveness.
 - Public rankings and tying rankings to financial access will create **reputational incentives, electoral and economic pressure** to enhance governance.
- **PPP Project Pipelines:** **Budget 2025-26** requires ministries and states to **plan three-year PPP projects**, boosting competition to attract private sector investment efficiently for infrastructure.
- **Business Reform Action Plan (BRAP):** **BRAP** drives state-level business reforms through rankings and implementation.
 - The **2024 BRAP** will emphasize **compliance reduction, decriminalization**, and alignment with the **World Bank's B-READY program**.
- **Finance Commission (FC):** FC promotes cooperative and competitive federalism by ensuring **equitable financial distribution** while incentivizing **governance, fiscal discipline, and economic performance**.
- **National Manufacturing Mission (NMM):** **NMM** offers a unified **policy framework, execution roadmaps**, and governance mechanisms to drive state competition in ease of doing business, infrastructure, and investment attraction.
- **India Infrastructure Project Development Fund (IIPDF):** The **IIPDF** promotes cooperative federalism by offering **financial and technical support**, ensuring states of all fiscal capacities can equitably contribute to national infrastructure development.

Way Forward

- **Enhancing the Role of NITI Aayog:** NITI Aayog should prioritize **micro-level planning** and collaborate with states to **tailor policies**, addressing regional economic disparities effectively.
 - States can establish their own **NITI Aayog-style institutions** to design and implement policies **suited to local needs**.
- **Strengthening ISC:** The meeting of ISC needs to be held regularly (last met in 2016) for resolving disputes on taxation, resource-sharing, and governance.
- **Addressing Economic Disparities:** Policies should be framed in a way that considers the **specific economic strengths and weaknesses of states**.
 - E.g., **Jharkhand** should attract **mining and manufacturing** investment, while **Kerala** must build a **high-end service industry**.
- **Clear Defining Role of Bodies:** FC and GST Council need **clear roles** to avoid tax-sharing conflicts, while the judiciary should ensure **fairness in Centre-State relations**.
 - FC can bring provisions to **curb excessive freebies** by implementing a **conditional grants framework**.

Drishti Mains Question:

Suggest policy measures to promote competitive and cooperative federalism in India.

UPSC Civil Services Examination Previous Year's Question (PYQs)

Mains

Q. How far do you think cooperation, competition and confrontation have shaped the nature of federation in India? Cite some recent examples to validate your answer. (2020)

Q. From the resolution of contentious issues regarding distribution of legislative powers by the courts, 'Principle of Federal Supremacy' and 'Harmonious Construction' have emerged. Explain. (2019)

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