



## 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:**
  - **About:** It is a system of **horizontal (state-state) and vertical (Centre-state) competition** to attract **investment**, improve **governance**, and enhance services.
  - **Implementation:** 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:**
  - **About:** It fosters **Centre-state collaboration** for effective governance, balanced development, and shared best practices.
  - **Implementation:** 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:**
  - **7<sup>th</sup> 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 Various Initiatives to Promote Competitive and Cooperative Federalism?

- **Competitive 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**.
- **Cooperative Federalism:**
  - **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.

## 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.

## 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:** ISC should be a **permanent body** for resolving disputes on taxation, resource-sharing, and governance. States must have a voice in **WTO obligations, treaties, and inter-state trade**.
- **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**.
- **Strengthening Councils:** FC and GST Council need **clear roles** to avoid tax-sharing conflicts, while the judiciary should ensure **fairness in Centre-State relations**.
  - FC can **curb excessive freebies** by implementing a **conditional grants framework**.

### Drishhti 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)

PDF Refernece URL: <https://www.drishtias.com/printpdf/competitive-and-cooperative-federalism>

