



Competitive federalism in India: Concept, evolution and challenges

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Abstract

This paper critically examines the conceptual foundations, historical evolution, and institutional dynamics of competitive federalism in India, framing it within classical theories from K.C. Wheare's legal-institutional model to William Riker's bargaining framework and Daniel Elazar's covenantal approach. It posits that competitive federalism in India is predominantly a post-1991 phenomenon, catalysed by economic liberalization, fiscal decentralization, and the decisive shift away from Nehruvian central planning towards market-oriented governance. This transformation has been institutionalized through key mechanisms, including the Goods and Services Tax (GST) regime and the replacement of the Planning Commission with NITI Aayog, which collectively redefined Centre-State relations by fostering performance-based accountability and inter-jurisdictional competition for investment and resources. Case studies reveal the dualistic effects of this shift. Initiatives like the Business Reform Action Plan (BRAP) rankings successfully incentivized regulatory efficiency among states but simultaneously risked widening pre-existing regional disparities. Similarly, the GST Council, conceived as a cooperative federal body, has exhibited centralizing tendencies through its majoritarian decision-making processes. Inter-state river disputes further expose institutional weaknesses, demonstrating how adjudicatory bodies like water tribunals are often ineffective and how resource conflicts become politicized within the federal framework. The analysis identifies persistent structural challenges, including jurisdictional ambiguity between Union and State competencies, fiscal asymmetries exacerbated by centrally sponsored schemes, and a concerning decline in intergovernmental trust. Technocratic reforms, such as the proposed River Basin Management Bill, often prioritize infrastructural efficiency at the expense of participatory governance and ecological sustainability. The paper concludes that while competitive federalism holds the potential to foster sub-national innovation and accountability, it currently risks entrenching inequities and reinforcing central dominance. A recalibration is essential, grounded in equitable fiscal devolution, consensus-oriented institutions, and ecosystem-based resource management. Ultimately, the study proposes reimagining inter-state competition as a structured mechanism for inclusive growth, balancing autonomy with cohesion and efficiency with equity, thereby contributing to broader debates on adapting federal systems in pluralistic democracies to align competitive dynamics with cooperative principles.

Keywords: Indian federalism, competitive federalism, centre-state relations, fiscal decentralization, constitutional governance

Introduction

Within scholarly discourse on political systems, federalism is typically conceptualized as a governmental structure that integrates a central governing authority with constituent regional entities within a unified political framework, allocating supreme authority to each level within their respective jurisdictions. K.C. Wheare, a leading scholar on federalism thus describes the federal principle as follows:

“By the federal principle I mean the method of dividing powers so that the general and regional governments are each, within a sphere, co-ordinate and independent.”^[1]

This has traditionally meant of a system of government in which power is divided between a central government and regional governments, each operating independently within its own sphere, without interference from the other.

Building on the foundational work of K.C. Wheare and subsequent theorists, federalism has evolved into multiple models—Cooperative, Layer Cake, Marble Cake, Creative, New, and Competitive—each reflecting specific socio-political and economic adaptations. While unified by the principle of divided authority between central and subnational governments, these variants differ in the degree of autonomy, intergovernmental cooperation, and policy competition they endorse. Among these, Competitive Federalism has gained particular traction as a framework that incentivizes subnational units to compete for

investment, resources, and administrative efficiency. John Kincaid, a key scholar in this area, defines Competitive Federalism:

“Competitive federalism” refers to the existence and desirability of competition among governments and jurisdictions in a federal political system. Competition among governments can be defined as rivalry whereby each government attempts to obtain some scarce benefit or resource (e.g., foreign investment) or to avoid a certain cost (e.g., a large welfare population).^[2]

This paper examines the developmental trajectory, practical functioning, and policy implications of Competitive Federalism in India. Indian federalism has been the subject of intense scholarly debate across disciplines such as law, political science, and economics. While Wheare famously characterized India's federal structure as “quasi-federal”, Granville Austin described it as:

‘an example of cooperative federalism that produces a strong Central government but does not result in weak provincial governments.’^[3]

The framers of the Indian Constitution also grappled with the nature of federalism during the Constituent Assembly debates. Dr. B.R. Ambedkar acknowledged its dual character, stating:

‘The Constitution is a Federal Constitution inasmuch as it establishes what may be called a Dual Polity... consisting of

the Union at the Centre and the States at the periphery, each endowed with sovereign powers to be exercised in the field assigned to them respectively by the Constitution.’^[4]

However, he further noted its flexibility, asserting that: ‘All federal systems, including the American, are placed in a tight mould of federalism... On the other hand, the [Indian] Constitution can be both unitary as well as federal according to the requirements of time and circumstances.’

This flexibility distinguishes Indian federalism from rigid federal systems, such as the United States, where jurisdictional boundaries remain largely immutable regardless of contextual exigencies.

This study adopts a theoretical-conceptual methodology, combining comparative models of federalism with analysis of India’s evolving policy architecture. Drawing on the works of Wheare, Riker, Elazar, Kincaid, and Watts, it critically examines the foundations of Competitive Federalism and its trajectory in post-1991 India. The analysis centers on structural shifts induced by liberalization, the role of NITI Aayog’s performance indices and fiscal implications of the GST framework. Integrating constitutional jurisprudence, macroeconomic indicators, and intergovernmental mechanisms—such as those governing inter-state water disputes—the paper assesses whether Competitive Federalism enhances efficiency without undermining national cohesion, contributing to debates on federalism’s adaptability in diverse democracies.

Conceptual Framework Federalism and Competitive Federalism

Federalism, as an institutional framework for governance, involves the constitutional allocation of sovereignty between central and subnational entities, institutionalizing concurrent spheres of authority and interdependence within a cohesive polity. Scholarly discourse on federalism has advanced considerably since the pioneering contributions of A.V. Dicey, K.C. Wheare, William Riker, and Daniel Elazar, whose theoretical frameworks have systematically elucidated the complexities of intergovernmental power distribution, negotiated governance, and the dialectical equilibrium between jurisdictional autonomy and collaborative imperatives.

Analysis of Federalism as a Concept and related theories

Among the earliest systematic analyses of federalism, A.V. Dicey’s seminal treatise *Introduction to the Study of the Law of the Constitution* advanced a critical appraisal of federalism’s structural and functional attributes, positioning it as a comparatively fragile governance model relative to unitary systems^[5]. Dicey conceptualized federalism as predicated on a rigid legal division of powers and a precarious jurisdictional balance between constituent units, emphasizing legal formalism and judicial arbitration over executive flexibility. He argued that such systems are structurally resistant to rapid adaptation, with courts—especially in models like the U.S.—exerting disproportionate influence in preserving constitutional stability. Dicey emphasized that federalism fosters dual political loyalties, potentially generating governance contradictions and weakening national cohesion. This enduring tension between regional autonomy and central authority remains central to contemporary analyses of competitive federalism in India, especially in navigating institutional challenges to unity within diversity.

Expanding on Dicey’s framework, K.C. Wheare defined federalism as a legal-institutional arrangement in which central and state governments operate as coordinate sovereigns within clearly demarcated constitutional domains. He emphasized mutual non-interference and strict jurisdictional separation as essential to maintaining federal integrity. However, scholars such as Riker, Friedrich, and Elazar, have criticized this framework for its inflexibility, contending that it fails to accommodate the adaptive, collaborative interdependence required in modern federations to manage overlapping policy domains.

William H. Riker redefined federalism as a product of strategic political bargaining, rejecting Wheare’s legal-institutional model. Drawing on game theory, he argued that federal arrangements arise from pragmatic incentives—security, elite power consolidation, and cost-benefit considerations—rather than normative commitments to decentralization^[6]. In the Indian context, Riker’s framework interprets federalism as a post-independence compromise to integrate diverse regions under central authority. He argued that federal systems tend toward centralization due to the national government’s fiscal and institutional dominance, as seen in the U.S. through Madisonian design and cyclical shifts in central-regional power^[7]. For India, this aligns with the transition from Congress-led centralization to coalition-era Competitive Federalism, where regional parties assert fiscal and administrative autonomy, though such competition risks governance inefficacy without robust institutions. Riker’s provocative assertion—that federalism minimally impacts policy outcomes—emphasizes institutional capacity (e.g., bureaucratic efficiency, judicial independence) over structural design, challenging assumptions that Competitive Federalism inherently enhances governance^[8]. In India, while inter-state competition may spur economic innovation, its efficacy remains contingent on institutional strength, such as transparent fiscal devolution and accountability mechanisms, rather than federal architecture alone.

Another prominent scholar of federalism Daniel Elazar analysed federalism by integrating sociological and covenantal perspectives, defining it as a negotiated partnership model that balances self-rule with shared governance. This approach contrasts with Wheare’s legal-institutional approach and Riker’s political-strategic theories. Rooted in the biblical covenant (*brit*), Elazar defined federalism as a voluntary partnership predicated on mutual recognition of autonomy, enabling units to preserve distinct identities while engaging in collective governance^[9]. He emphasized federalism’s adaptability as an evolving process of inter-tier negotiation rather than a rigid constitutional or transactional arrangement. Elazar’s “Federalist Revolution” categorized federal systems into confederations (e.g., EU), federations (e.g., India, U.S.), federacies (e.g., Puerto Rico), common markets (e.g., EEC), and consociational arrangements (e.g., Lebanon), demonstrating its global adaptability to diverse governance needs. Central to his thesis is federalism’s role in mitigating ethnic and regional conflict by institutionalizing self-governance within a unified polity, necessitating intergovernmental cooperation to balance competition and cohesion^[10]. For India, Elazar’s model contextualizes Competitive Federalism as a dual framework where states vie for economic advantages (e.g., NITI Aayog rankings) while adhering to shared constitutional principles, as seen in

the linguistic reorganization of states (1956) and asymmetrical federacies like Jammu and Kashmir (pre-2019). His assertion that competition and cooperation coexist aligns with India's post-1990s shift toward decentralized policymaking, wherein states leverage fiscal autonomy under GST frameworks while collaborating on national priorities like climate resilience. However, Elazar's emphasis on negotiated governance underscores the institutional prerequisites—such as impartial fiscal commissions and judicial mediation—for sustaining federal equilibrium in India's pluralistic democracy.

Competitive Federalism as a Governance Model

Competitive federalism represents a governance framework characterized by jurisdictional rivalry among subnational units^[11], prioritizing decentralization, autonomy,^[12] and efficiency over the collaborative intergovernmental relations central to cooperative federalism^[13]. Rooted in economic theories of market competition, this model posits that states or provinces, as quasi-autonomous entities, compete for resources, investments, and policy influence, mirroring corporate competition in free markets. Albert Breton conceptualized such competition as a check against monopolistic governance, arguing that it drives innovation, fiscal accountability, and administrative efficiency. In contrast to cooperative federalism's emphasis on joint decision-making—criticized by Fritz Scharpf as fostering bureaucratic inertia and policy stagnation—competitive federalism seeks to mitigate central overreach by empowering subnational governments to act as independent actors^[14]. Watts observes that contemporary federal systems operate as hybrid frameworks, dynamically alternating between cooperative and competitive modalities in response to economic imperatives and institutional configurations. For instance, decentralized fiscal autonomy may spur tax competition among states, while shared national priorities (e.g., climate policy) necessitate cooperation, illustrating the fluid interplay between these paradigms.

Historical Evolution and Functional Mechanisms

The evolution of competitive federalism challenges classical federal theories, such as Wheare's "watertight compartments" of dual sovereignty, which underestimated the inevitability of intergovernmental interaction. Historically, federations like the U.S., Canada, and Australia transitioned from rigid dual sovereignty frameworks to interdependent systems, where economic crises (e.g., the Great Depression) initially expanded federal dominance. However, late-20th-century neoliberal reforms catalysed a resurgence of competitive federalism, exemplified by Reagan-era devolution in the U.S., German Länder reforms to reduce interlocking federalism, and India's post-1991 market liberalization. These shifts institutionalized mechanisms such as fiscal competition (e.g., tax incentives to attract businesses), regulatory differentiation (e.g., state-specific environmental laws), and political-electoral rivalry (e.g., regional leaders challenging national agendas). While such competition can enhance governance responsiveness, it risks fostering a "race to the bottom" in public welfare standards or fragmenting national regulatory coherence, as seen in disparate U.S. labor laws^[15] or India's inter-state trade barriers.

Competitive federalism, therefore, denotes a governance framework wherein subnational units pursue policy and

economic innovation within a decentralized structure, fostering accountability and responsiveness. This competition, however, remains embedded within a cooperative federal architecture, necessitating intergovernmental coordination to address national imperatives. The model's efficacy depends on institutional capacity at the state level and mechanisms to reconcile regional autonomy with distributive equity and systemic coherence.

Implications for India and Balancing Governance Imperatives

In India, competitive federalism gained prominence post-liberalization, with states leveraging NITI Aayog's performance rankings (post 2015), FDI attraction strategies, and policy experimentation (e.g., Rajasthan's labor reforms) to assert economic autonomy. However, this model exacerbates regional disparities, as industrially advanced states like Maharashtra outcompete others, while regulatory fragmentation hinders national market integration. Watts have argued that sustainable federalism requires balancing competition with cooperation—ensuring states innovate without undermining collective goals. India's Goods and Services Tax (GST) framework, for instance, harmonizes fiscal policies while preserving state revenue autonomy, reflecting this equilibrium. Yet, challenges persist: political fragmentation complicates national consensus, and weak institutional safeguards risk amplifying inequality. Ultimately, competitive federalism's efficacy hinges on robust accountability mechanisms, equitable fiscal devolution, and judicial mediation to reconcile autonomy with unity, underscoring that governance outcomes depend less on structural design than on institutional capacity and political will.

Historical Evolution of Federalism in India: From Cooperation to Competition and Vice-Versa Pre-Independence Federal Strands

The evolution of federalism in pre-independent India was shaped by the administrative imperatives of managing a territorially and culturally diverse subcontinent. The Mughal Empire maintained centralized authority but displayed proto-federal features by granting provincial governors (subedars) significant administrative autonomy, as seen in Akbar's division of the empire into Subahs with parallel bureaucratic structures^[16]. Under British rule, initial decentralization was evident in the governance of separate presidencies, but subsequent legislation such as the Regulating Act of 1773 and post-1858 Crown consolidation reasserted centralized control. Despite limited autonomy granted to princely states, colonial governance prioritized administrative functionality over cultural or linguistic coherence, often disregarding ethno-regional identities in the demarcation of provincial boundaries.

Formal federalism materialized in the 20th century through colonial reforms aimed at managing rising nationalist demands. The Simon Commission (1927) and Round Table Conferences (1930–1932) proposed federal structures to accommodate princely states and British India, though princely resistance stalled progress^[17]. The Government of India Act (1935) institutionalized a three-list system—federal, provincial, and concurrent—to demarcate legislative powers, yet its implementation faltered as princely states rejected integration to preserve sovereignty. The Act's

retention of residuary powers with the Governor-General underscored British strategic control, reflecting federalism as an instrument of colonial continuity rather than devolution.

Nationalist responses to these federal models were fractious. The Indian National Congress initially opposed British federalism as divisive but later accepted provincial autonomy under the 1935 Act, albeit advocating for a strong central government to prevent fragmentation. Conversely, the Muslim League's support for decentralization shifted after the 1937 elections, culminating in demands for Pakistan to avoid Hindu-majority dominance. Princely states, fearing Congress-led centralization, resisted federal integration until post-1947 forced assimilation. Scholarly consensus suggests that British federal policies prioritized divide-and-rule tactics and prolonged colonial control over genuine power-sharing, as incomplete implementation of the 1935 Act ensured imperial oversight. Thus, pre-independence federalism served as a contested, strategically fragmented framework, shaped by colonial expediency rather than democratic consensus.

Evolution of Federalism in Post-Independent India

The evolution of federalism in post-independence India can be systematically analyzed in three distinct phases: (i) the period from the 1950s to the 1960s, characterized by the dominance of a centralized federal structure and one-party rule; (ii) the phase from the 1970s to the 1990s, marked by increasing political centralization, economic regulation, and subsequent decentralizing trends; and (iii) the contemporary era from the 2010s to the present, wherein federal dynamics have been shaped by economic liberalization, political realignments, and evolving Centre-state relations.

Centralized Federalism and One-Party Dominance (1950s–1960s)

Post-independence India established a centralized federal framework to balance unity amidst diversity, driven by concerns over fragmentation post-Partition and the imperative for economic development [18]. The Indian Constitution, while federal in structure, vested overriding authority in the Union government, reflecting a deliberate design to prioritize national integration and stability [19]. Constitutional provisions such as Articles 3 and 356, alongside the expansive scope of the Concurrent List and the centrally appointed Governor, institutionalize asymmetrical federalism favoring the Union. These features enable the Centre to override state autonomy, particularly during crises, thereby embedding a quasi-unitary character distinct from classical federations like the United States.

Economic policy under Nehru's socialist vision further entrenched centralization, exemplified by the Planning Commission's control over Five-Year Plans and industrial licensing, which curtailed state autonomy in economic decision-making. Fiscal mechanisms, including central grants administered through the Planning Commission, deepened states' financial dependence on the Union, relegating them to subordinate roles in economic governance. Politically, the Indian National Congress's dominance at both national and state levels reinforced this centralization. This period saw federal relations dominated by Congress's unitary control, marginalizing regional interests and opposition voices.

Despite central dominance, federal flexibility emerged through the linguistic reorganization of states in 1956, which accommodated regional identities under the States Reorganization Act and Article 371's special provisions for regions like Nagaland and Jammu & Kashmir. However, these concessions did not dilute central authority over law and order or economic planning. By the late 1960s, challenges to centralized federalism intensified with the rise of regional parties such as the DMK and Akali Dal, judicial scrutiny of Article 356 abuses, and state-level fiscal pressures demanding decentralization. These developments signalled the gradual erosion of Congress's hegemony, setting the stage for federal realignment in subsequent decades.

Indian federalism in the early post-independence decades was marked by Congress-led centralization, entrenched through constitutional, fiscal, and political instruments aimed at preserving national unity. While reforms such as linguistic reorganization and asymmetric provisions under Article 371 reflected adaptive flexibility, the overarching structure prioritized Union authority over regional autonomy. Nonetheless, emerging regional contestation, judicial scrutiny of Article 356, and fiscal disputes by the late 1960s signaled an early shift toward decentralizing trends that would shape subsequent federal transformations.

Era of intense centralization to decentralization (1970s–1990s)

The 1970s in India saw heightened centralization, driven by authoritarian governance, economic stagnation, and eroded institutional constraints. Under Prime Minister Indira Gandhi, the Union Government centralized economic and political authority, curtailing state autonomy. A key instrument of this centralization was the nationalization of critical sectors, including banking and insurance, which expanded the public sector's dominance. This model reflected Nehruvian central planning aimed at industrial growth and poverty reduction. However, while the Centre controlled fiscal and industrial policy, states bore increasing expenditure burdens without matching financial autonomy, reinforcing vertical fiscal dependence and central dominance in federal relations.

Politically, the era saw the ascendancy of the Prime Minister's Office (PMO) and the personalization of power under Indira Gandhi, which marginalized internal party democracy and state-level leadership. The Congress "High Command" in Delhi dictated the appointment of chief ministers, undermining states' political agency. This centralizing tendency peaked during the Emergency (1975–77), when democratic processes were suspended, elected state governments dismissed, and power concentrated in the PMO. The recurrent use of Article 356 to impose President's Rule underscored central dominance, displacing elected state governments with centrally appointed administrators. This practice weakened federal norms and exposed the fragility of India's constitutional balance during political crises.

Economically, the 1970s exposed the inefficiencies of over-centralized planning. Despite initial post-independence growth, the decade saw stagnation, with micro-managed policies from Delhi failing to account for India's regional diversity. Central interventions, though aimed at addressing market failures, often reinforced inefficiencies and constrained subnational policy autonomy. With limited

fiscal space, states grew increasingly dependent on the Centre, marking the 1970s as the apex of centralized federalism—defined by executive dominance, curtailed regional autonomy, and economic rigidity. While federal structures remained intact, this period exposed the systemic risks of excessive centralization, laying the groundwork for later decentralizing reforms.

The 1991 economic liberalization under Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh redefined federal dynamics, transitioning India from a state-controlled to a market-driven economy. Deregulation and privatization reduced central planning, granting states greater autonomy in industrial policy and taxation. Therefore, it can be concluded that the dismantling of the License Raj enabled states like Maharashtra, Tamil Nadu, and Karnataka to attract foreign investment through competitive incentives, fostering competitive federalism. However, this shift exacerbated regional disparities, as industrially advanced states outpaced others in growth rates—evidenced by a rise in per capita income from 3.03% in the 1980s to 4.02% in the 1990s^[20]. While wealthier states capitalized on infrastructure and governance advantages, poorer states struggled with limited capacity, highlighting the dual-edged nature of liberalization.

Fiscal reforms further complicated federal relations. The Tenth and Eleventh Finance Commissions (1990–2000) attempted to balance equity and efficiency in revenue-sharing but faced criticism for their ad hoc approaches^[21]. Discretionary grants and centrally sponsored schemes perpetuated fiscal dependency, undermining states' financial autonomy despite nominal decentralization. This period therefore epitomized the paradox of post-liberalization federalism: while states gained policy flexibility, structural inequities and central oversight persisted, reflecting unresolved tensions between regional aspirations and centralized control.

The economic liberalization of 1991 fundamentally restructured Indian federalism, shifting from a state-led developmental model to a market-oriented paradigm that prioritized fiscal austerity and expenditure compression. This transition centralized economic policymaking under the Centre while devolving expenditure responsibilities to states without commensurate revenue-raising autonomy, exacerbating regional disparities. Wealthier states like Maharashtra and Karnataka leveraged private investment and industrial growth, while low-income states such as Bihar remained dependent on central transfers despite sporadic growth spurts^[47]. The liberalization agenda depoliticized federalism, narrowing its focus to fiscal efficiency rather than equitable power-sharing. Fiscal federalism became a technocratic exercise, sidelining political asymmetries and institutionalizing a managerial approach to intergovernmental relations. The introduction of the Fiscal Responsibility and Budget Management (FRBM) Act (2003) formalized austerity, mandating fiscal discipline through conditional grants and debt relief, which constrained states' capacity for public investment even as they faced rising development demands. Paradoxically, states' own-tax revenues grew faster than central collections post-2007, yet regressive taxation structures—marked by corporate tax cuts and reliance on indirect taxes—deepened inequities, disproportionately burdening lower-income groups.

Therefore, between the 1970s and 1990s, Indian federalism witnessed a transition from political centralization to limited fiscal decentralization. Post-1991 liberalization expanded subnational economic agency, yet fiscal autonomy remained constrained by central instruments such as the Fiscal Responsibility and Budget Management Act. This period illustrates the paradox of decentralization coexisting with fiscal centralism, as neoliberal reforms facilitated policy flexibility but reinforced structural dependency and inter-regional disparities.

Contemporary Era: Competitive Federalism in India from 2014 onwards

The post-2014 period in India has witnessed a significant shift in federal dynamics, marked by the emergence of competitive federalism as a defining feature of governance. The Bharatiya Janata Party (BJP), under Prime Minister Narendra Modi, introduced institutional reforms aimed at fostering both cooperative and competitive federalism. The replacement of the Planning Commission with NITI Aayog in 2015 exemplified this transition. NITI Aayog was to be the body that bring states to act together in national interest and there by foster Cooperative Federalism^[22]. NITI Aayog abandoned centrally dictated five-year plans and introduced performance indices to rank states on governance outcomes such as health, education, water management, and innovation^[23]. By encouraging transparent rankings and public recognition, the framework sought to incentivize states to improve their performance while fostering healthy competition. Simultaneously, the Goods and Services Tax (GST) Council, established in 2016, institutionalized negotiation between the Centre and states, positioning GST as a major exercise in cooperative federalism^[24]. However, competitive federalism has coexisted with cooperative mechanisms, as states were compared on their implementation of central schemes like the National Rural Employment Guarantee Act (NREGA) and Pradhan Mantri Gram Sadak Yojana (PMGSY), embedding rivalry into the federal structure.

Despite these institutional measures, competitive federalism has often been accompanied by centralizing tendencies that have strained Centre-state relations. The BJP's single-party majority after 2014 enabled a departure from coalition-driven governance and reinforced political centralization^[25]. Centrally Sponsored Schemes (CSSs), such as Swachh Bharat Mission and PM Awaas Yojana, were closely associated with the Prime Minister's persona, reducing state-level visibility and autonomy. Fiscal transfers under these schemes became conditional on compliance with central priorities, undermining equitable resource distribution. Additionally, unilateral policy decisions like demonetization in 2016 were executed without consulting state governments, eroding collaborative governance norms. Political confrontation intensified as opposition-ruled states accused the Centre of undermining federal principles through actions such as withholding GST compensation funds and leveraging governors to influence state politics^[26].

Competitive federalism has also reshaped economic governance by encouraging states to vie for investments and jobs through improved infrastructure and regulatory frameworks. States like Kerala have highlighted their social indicators^[29] while Gujarat has emphasized industrial growth, each crafting narratives of success to attract

investments [28]. NITI Aayog further institutionalized this competition through indices such as the School Education Quality Index and Sustainable Development Goals Index. However, this economic competition has been accompanied by jurisdictional disputes over GST revenue allocation, policing powers, and resource distribution. Opposition-ruled states have often sparred with the Centre on these issues while simultaneously striving to outperform others economically [39].

Since 2014, Indian federalism has undergone institutional recalibration, characterized by a hybridization of cooperative and competitive frameworks amid accentuated central dominance. Institutions like NITI Aayog and the GST Council were introduced to promote collaborative governance, yet competitive instruments—such as state performance rankings—have institutionalized intergovernmental rivalry. Simultaneously, centralizing measures, including conditional transfers through CSSs, unilateral policy moves (e.g., demonetization), and politicization of GST compensation, have constrained subnational autonomy. While states such as Gujarat and Kerala utilized competition to craft differentiated development models, unresolved tensions over fiscal equity and regulatory jurisdiction reveal persistent asymmetries. The result is a structurally uneven federal order wherein regional agency is shaped and often curtailed by centralized authority.

Constitutional Provisions and Institutional Framework of Federalism in India

The post-2014 trajectory of Indian federalism, particularly the rise of competitive federalism, must be situated within the enduring constitutional, fiscal, and judicial frameworks structuring Centre–State relations. While the BJP-led regime has introduced new intergovernmental dynamics, these evolve within established constitutional provisions—namely the Seventh Schedule and Articles 245–263—that balance decentralization with central oversight. This paper examines the architecture of legislative and administrative relations, the role of fiscal institutions such as the Finance Commission in allocating resources and incentivizing performance, and judicial interpretations that delineate federal boundaries. Together, these dimensions reveal the interplay of structural continuity and institutional recalibration shaping contemporary Indian federalism.

Federalism in the Indian Constitution

The Indian Constitution establishes a federal structure through a vertical and horizontal distribution of powers between the Union and States, as outlined in Part XI (Articles 245–263) and the Seventh Schedule. The Seventh Schedule demarcates legislative authority via three lists: The Union List (exclusive central jurisdiction over 97 subjects, including defense and foreign affairs), the State List (66 subjects such as public health and police), and the Concurrent List (47 shared subjects like education and criminal law) [30]. Article 246 grants Parliament supremacy over the Concurrent List, with conflicting state laws yielding to central legislation under Article 254. The Centre further retains residuary legislative powers (Article 248) and can legislate on State List subjects during emergencies (Article 249) or via Rajya Sabha approval (Article 252), reflecting a centralizing tilt [3].

Administrative relations under Articles 256–263 reinforce this asymmetry. States must comply with central directives (Articles 256–257), [32] while the President’s Rule (Article 356) enables the Centre to assume state governance during constitutional breakdowns, a provision frequently misused for political ends. The Governor, appointed by the Centre (Article 155), acts as a federal intermediary but often faces accusations of partisan conduct [33]. Despite these centralizing mechanisms, the 73rd and 74th Amendments (1992) introduced a third tier of governance by constitutionally recognizing panchayats and municipalities, decentralizing administrative responsibilities to local bodies [34].

Fiscal Federalism and Competitive Dynamics

India’s fiscal federalism balances resource allocation through constitutional mandates and institutional mechanisms. The Finance Commission (Article 280) recommends vertical (Centre-to-States) and horizontal (inter-state) revenue-sharing formulas to address fiscal disparities [35]. However, as explained earlier, central dominance persists via discretionary grants and Centrally Sponsored Schemes (CSS), which condition funds on adherence to national priorities, undermining state autonomy.

Judicial Interpretation of Competitive Federalism

Judicial rulings have shaped India’s federal equilibrium by delineating the boundaries of Centre-State authority. In *S.R. Bommai v. Union of India* (1994), the Supreme Court affirmed federalism as a “basic structure” of the Constitution, curbing arbitrary imposition of President’s Rule for political ends. The Court emphasized that states derive authority directly from the Constitution, not as “agents” of the Centre, reinforcing their autonomy. Conversely, *State of Rajasthan v. Union of India* (1977) underscored the Constitution’s unitary flexibility, permitting central dominance during emergencies.

Finance Commission disputes further highlight judicial mediation in fiscal conflicts. In *Kuldip Nayar v. Union of India* (2006), the Court upheld Parliament’s power to alter state representation, balancing federal principles with national cohesion. In the case of *Union of India vs. M/S Mohit Minerals Pvt. Ltd.* (2022), the Supreme Court addressed the constitutional status of the Goods and Services Tax (GST) Council’s recommendations within India’s federal framework. The Court held that these recommendations are not binding on the Union and State governments; instead, they are advisory in nature. This interpretation reinforces the principles of fiscal federalism embedded in the Constitution, ensuring that both levels of government retain their autonomy in taxation matters. The Court emphasized that treating the GST Council’s recommendations as binding would disrupt the federal balance, as it would effectively subordinate the States’ legislative powers to the Centre, contrary to the Constitution’s intent. These rulings reflect a jurisprudence that navigates between cooperative imperatives and competitive pressures, ensuring federalism adapts to India’s socio-political exigencies.

So, India’s federal architecture, while constitutionally decentralized, operates within a framework of negotiated centralization. The Seventh Schedule and fiscal mechanisms like the GST Council institutionalize cooperation, yet

competitive federalism emerges through NITI Aayog's rankings and inter-state rivalry for investments. Judicial interventions, as in *Bomma*, safeguard state autonomy but acknowledge the Centre's overarching role in national stability. This dynamic interplay between cooperation and competition defines India's unique federalism—a system striving to balance unity with diversity, equity with efficiency.

Case Studies on Nature of Competitive Federalism in India

As noted earlier in this paper, India's federal framework generates a dynamic interplay between cooperation and competition among states, reflected in divergent policy approaches and developmental outcomes. This section presents select case studies to examine how competitive federalism drives economic rivalry—through investment facilitation and regulatory innovation—while enabling subnational policy experimentation. Simultaneously, it highlights tensions arising from inter-state disputes over resource distribution, fiscal entitlements, and institutional jurisdiction. These cases illustrate the fragile balance between constructive competition and combative federalism, revealing how structural disparities and political frictions influence the trajectory of intergovernmental relations in India.

Economic Competition among States

Interstate economic competition in India has emerged as a pivotal catalyst for structural reforms and socioeconomic development. This dynamic is institutionally operationalized through the Ease of Doing Business (EoDB) Index, developed through a partnership between the Department for Promotion of Industry and Internal Trade (DPIIT) and the World Bank, which functions as a standardized evaluative framework to systematically assess subnational business climates. We analyse the 2016 and 2020 reports.

The 2016 State Assessment Report on Business Reforms, released by the Ministry of Commerce and Industry, institutionalized competitive federalism through the Business Reform Action Plan (BRAP)^[37]. This framework assessed states on the implementation of 340 reforms across ten parameters—ranging from transparency and Single Window Systems to tax compliance and contract enforcement—thereby incentivizing regulatory streamlining to attract private investment. States were categorized into four performance tiers: Leaders (e.g., Andhra Pradesh, Telangana), Aspiring Leaders (e.g., Karnataka), Acceleration required (e.g., Tamil Nadu), and Jump Start Needed (e.g., Kerala). Andhra Pradesh and Telangana, with scores nearing 99%, exemplified performance-based federalism by leveraging innovations like TS-iPASS and automated compliance systems to reduce bureaucratic friction and serve as policy models for peer jurisdictions.

However, the report highlights stark regional disparities, with western and southern states outperforming northeastern states and smaller Union Territories, many of which scored below 1%. This divergence underscores a critical challenge: while competition drives reform diffusion—exemplified by Uttarakhand's leap from 13.36% to 96.13% and Bihar's rise from 16.41% to 75.82%—it risks exacerbating spatial inequalities. The BRAP's emphasis on *implementation evidence* (e.g., digitized platforms, legislative backing) over policy intent compels states to operationalize reforms,

fostering horizontal learning but also exposing capacity gaps. For instance, lagging states struggled with inspection rationalization and contract enforcement, areas where Leaders excelled through risk-based oversight and centralized clearance portals. These disparities reveal the dual nature of competitive federalism: a catalyst for efficiency yet a potential amplifier of regional inequities.

The 2020 Business Reforms Action Plan (BRAP) assessment, released by the Department for Promotion of Industry and Internal Trade (DPIIT), reflects a maturing framework for competitive federalism in India, marked by methodological refinements and a shift toward collaborative learning. Unlike the 2016 assessment, which ranked states hierarchically (e.g., *Leaders, Aspiring Leaders*), the 2020 exercise categorizes states/UTs into four tiers—*Top Achievers* (Andhra Pradesh, Gujarat, Haryana), *Achievers* (Madhya Pradesh, Maharashtra), *Aspirers* (Kerala, West Bengal), and *Emerging Business Ecosystems* (Bihar, Delhi)—to emphasize shared progress over rigid rankings. This reorientation aligns with the Union government's stated objective of fostering a “culture of learning” rather than hierarchy, as articulated by Commerce Minister Piyush Goyal, who highlighted the transition from evidence-based evaluations in 2016 to a 2020 model prioritizing multilingual, user-centric feedback. The 2020 BRAP expanded its scope to 301 reforms, including 118 new parameters and sector-specific measures across healthcare, tourism, and telecom—a departure from the 2016 focus on generic regulatory streamlining. Such sectoral granularity underscores efforts to address niche investor needs while maintaining core reforms in land, labor, and tax compliance. A Comparative analysis with the 2016 report reveals continuity in regional disparities but evolving policy mechanisms. Top performers like Andhra Pradesh and Gujarat retained dominance, leveraging institutional innovations such as single-window systems (e.g., TS-iPASS in Telangana), mirroring their 2016 strategies. However, the 2020 framework introduced nuanced metrics, including ground-level user feedback, to assess reform *implementation efficacy* rather than mere procedural adoption—a critique of earlier exercises. For instance, Uttarakhand's progression from *Jump Start Needed* (2016) to *Achievers* (2020) illustrates adaptive learning, while Bihar's relegation to *Emerging Business Ecosystems* signals persistent capacity gaps despite nominal improvements. Finance Minister Nirmala Sitharaman noted the shift from “compulsory” reforms in 2016 to “responsive” reforms in 2020, driven by stakeholder “nudging” rather than top-down mandates—a recognition of decentralized policy agency.

The 2020 assessment also reflects a strategic balancing of competition and cooperation. While the 2016 report accentuated inter-state rivalry through public rankings, the 2020 categorization mitigates zero-sum dynamics by framing disparities as opportunities for horizontal learning. For example, *Aspirers* like Kerala and Rajasthan are incentivized to emulate *Top Achievers'* sectoral reforms, such as Karnataka's digital land registries. Yet, challenges persist: northeastern states and smaller UTs (e.g., Manipur, Nagaland) remain in the *Emerging* tier, echoing 2016's spatial inequities. DPIIT Secretary Anurag Jain emphasized minimal score differentials between categories, underscoring the need for capacity-building to prevent competitive federalism from exacerbating regional divides—a caution reiterated since 2016. Thus, the 2020

BRAP represents both continuity in fostering regulatory agility and innovation in embedding cooperative elements, reflecting India's evolving federal discourse.

The institutionalization of the Ease of Doing Business (EoDB) initiative marks a paradigm shift from passive decentralization to structured inter-state rivalry, reshaping India's federal narrative. While high-performing states leverage regulatory agility to attract capital, the report underscores the necessity of targeted capacity-building to mitigate divergence. Competitive federalism, thus, operates as a double-edged sword: driving subnational innovation while necessitating compensatory mechanisms to ensure equitable development. The 2016 and 2020 assessments serve as both a diagnostic tool and a policy blueprint, illustrating how competitive frameworks can coexist with cooperative imperatives in a heterogeneous federal system.

Competitive to Combative Federalism

The establishment of NITI Aayog in 2015 marked a formal shift toward competitive federalism in India, emphasizing policy innovation, administrative responsiveness, and inter-state performance-based comparison. However, the coexistence of ideological divergences between the Centre and various state governments has simultaneously produced combative federalism—a variant characterized by coercive centralization, fiscal imbalance, and diminished intergovernmental trust. While competitive federalism encourages decentralized governance through institutional incentives, its combative counterpart reflects adversarial politics that weaken collaborative federal norms. This duality reflects the structural tension between institutional aspirations for cooperative competition and the operational dynamics of a fragmented multi-party polity.

The Goods and Services Tax (GST), implemented in 2017 as a transformative fiscal reform to harmonize India's fragmented indirect tax system, exemplifies the complexities of Centre-State fiscal relations. Under the GST framework, states relinquished approximately 70% of their tax autonomy in exchange for a constitutional guarantee of 14% annual revenue growth for five years, financed through a compensation cess on demerit goods such as luxury vehicles and tobacco^[38]. This GST framework initially garnered consensus among states due to its anticipated revenue growth and structural expansion of the tax base—particularly through the inclusion of services, which had previously remained outside subnational jurisdictions' taxing authority. However, structural vulnerabilities emerged by 2019–2020, as macroeconomic deceleration and the unprecedented fiscal shocks of the COVID-19 pandemic precipitated substantial shortfalls in GST collections. The Centre, citing the pandemic as an "act of God," refused to honour full compensation commitments, leading to acrimonious disputes with States^[38].

The dispute over GST compensation revealed deeper structural challenges in India's federal framework. The GST Council, established under Article 279A as a consultative institution, became a site of contention when its consensus-based decision-making gave way to majoritarianism, particularly in the context of opposition-led states. The Centre's use of the Council's weighted voting—effectively granting it a veto—led to perceptions of political bias and the marginalization of dissenting states. The shift from unanimous to contested decisions illustrated the weakening of cooperative federal norms and the growing use of fiscal

mechanisms for partisan advantage, exacerbating intergovernmental tensions. Therefore, these developments represented not just a procedural breakdown, but a deeper erosion of intergovernmental trust—a core component of federalism transforming into a combative federal polity where states are at loggerheads with the Central government.

The politicization of language policy in India also exemplifies combative federalism, notably evident in Tamil Nadu's vehement resistance to the National Education Policy (NEP) 2020's three-language formula, perceived as reinforcing Hindi hegemony. Chief Minister M.K. Stalin framed the policy as a continuation of postcolonial linguistic asymmetries, critiquing historical mechanisms like the Dakshin Bharat Hindi Prachar Sabha (established 1918) for institutionalizing Hindi in southern states while northern regions lack reciprocal frameworks to promote Dravidian languages. This contention highlights a structural imbalance in India's federal compact, where centralized language mandates—viewed as cultural homogenization—clash with regional assertions of linguistic identity, exacerbating intergovernmental tensions and contesting the pluralist ethos enshrined in constitutional federalism^[39].

Combative federalism, hence, signifies the erosion of cooperative governance frameworks, emanating from systemic asymmetries in India's institutional architecture, where central dominance in fiscal, legislative, and cultural domains perpetuates intergovernmental discord. Such dynamics underscore a misalignment between centralized decision-making and regional autonomy, necessitating institutional reforms to recalibrate federal equilibrium. This includes institutionalizing deliberative mechanisms for consensus-driven governance, redressing vertical fiscal imbalances through equitable resource devolution, and constitutionally recognizing plurinational identities to mitigate cultural homogenization. Only through structural reciprocity and procedural equity can India's federal compact reconcile competitive aspirations with cooperative imperatives, ensuring constitutional fidelity to pluralism.

Inter-State Disputes: Water and Resources- A conflictual dimension of Competitive Federalism in India

India's federal framework, constitutionally structured to facilitate cooperative governance of shared resources, confronts persistent challenges in managing inter-state river water disputes, exemplified by its 25 major transboundary river basins^[40]. These conflicts epitomize the phenomenon of "conflictual federalism," arising from ambiguities in jurisdictional delineation, institutional incapacity to preempt disputes, and the politicization of resource allocation^[41]. Such tensions are exacerbated by the intersection of cooperative imperatives and competitive subnational interests, often resulting in protracted adjudication processes and erosion of intergovernmental trust. The recurrent deadlocks underscore systemic deficiencies in India's federal architecture, particularly the lack of enforceable mechanisms for equitable resource distribution and proactive basin-level governance, necessitating institutional reforms to reconcile constitutional mandates with hydrological realities.

The constitutional framework governing inter-state river management in India is characterized by jurisdictional ambiguity, epitomized by the concurrent authority

delineated in Entry 56 of the Union List (Parliament's mandate to regulate inter-state rivers) and Entry 17 of the State List (states' jurisdiction over water for irrigation, drainage, and local use) [42]. This jurisdictional overlap engenders a fragmented governance structure, wherein both tiers of government assert partial authority while evading accountability for comprehensive basin management. This constitutional ambiguity promotes reactive adjudication over preventive governance, as the absence of harmonizing institutions allows disputes to escalate. As a result, interstate water conflicts endure as structural expressions of federal misalignment, underscoring the need for clearer jurisdictional demarcation and strengthened cooperative governance mechanisms.

The Interstate River Water Disputes Act (ISRWDA), 1956, and the River Boards Act, 1956, were enacted to institutionalize adjudicatory and cooperative mechanisms for inter-state water governance. However, while the ISRWDA has facilitated the establishment of tribunals (e.g., Cauvery, Krishna, Ravi-Beas), the River Boards Act has remained underutilized, reflecting a systemic preference for reactive adjudication over proactive basin-wide management. This institutional imbalance has resulted in fragmented and litigious approaches to conflict resolution, exemplified by prolonged adjudication timelines and limited enforcement capacities of tribunals [43]. The absence of functional river boards has perpetuated jurisdictional fragmentation, exacerbating systemic inefficiencies and underscoring the need for robust, anticipatory frameworks to harmonize competing claims and ensure sustainable interstate water governance.

The Cauvery River conflict between Tamil Nadu and Karnataka illustrates jurisdictional disputes over riparian entitlements, driven by divergent normative claims. Tamil Nadu, as the downstream state, emphasizes historical usage and colonial-era agreements under a "Doctrine of History," whereas Karnataka, situated upstream, advocates a "Doctrine of Development," seeking equitable reallocation to meet contemporary socio-economic demands [44] emphasizing equitable apportionment to meet contemporary agricultural, industrial, and urban demands. The protracted conflict underscores systemic challenges in balancing vested rights with adaptive equity within India's federal architecture.

The politicization of inter-state river disputes intensifies institutional complexity, as political actors leverage these conflicts to mobilize subnational identity for electoral gain. This instrumentalization undermines the viability of compromise, making negotiated settlements politically costly and electorally disadvantageous. Fali S. Nariman underscores this intransigence, noting that political entities exhibit "unwavering reluctance to concede jurisdictional claims" to rival states. Electoral considerations displace cooperative negotiation, privileging adversarial strategies and institutionalizing litigation as the primary resolution mode. Yet, tribunal-based adjudication is hindered by procedural inefficiencies and weak enforcement, reinforcing intergovernmental conflict over collaborative governance [45].

Resolving inter-state water disputes (ISWDs) in India necessitates a dual consensus framework—federal and electoral—to reconcile competing claims over shared resources. Federal consensus requires institutional confidence-building measures, underpinned by equitable

procedural frameworks and inclusive representation in intergovernmental bodies [46] such as the proposed River Basin Organizations. Simultaneously, electoral consensus demands strategic depoliticization or constructive political engagement to shift public discourse from regionalist rhetoric toward sustainable, basin-wide solutions [48].

Therefore, interstate water disputes in India reflect not only hydrological contention but also structural tensions over rights, representation, and the federal framework's institutional capacity. These conflicts reveal an ongoing renegotiation of Centre-State relations, where governance intersects with sovereignty and equity. Sustaining effective federal resource management requires adaptive institutions that align legal authority with political legitimacy and ecological sustainability. While competitive federalism may encourage innovation, unregulated rivalry risks exacerbating disparities and ecological degradation. A calibrated model combining competitive incentives with cooperative, basin-level governance is essential to reconcile claims and uphold constitutional commitments to equitable and sustainable resource use.

Challenges to Competitive Federalism in India

India's competitive federalism drives state-level policy innovation in healthcare, education, and infrastructure but exacerbates fiscal, administrative, and regional disparities. While performance rankings incentivize governance reforms, they disproportionately favor economically stronger states, widening inequalities. Key challenges—centralized fiscal control, politicized funding, and fragmented coordination—hinder equity. Reforms must prioritize equitable fiscal devolution, capacity-building for weaker states, and collaborative frameworks to harmonize competition with cooperation. This recalibration can align subnational progress with inclusive, sustainable national goals.

Regional Disparities and Unequal Development

India's federal framework exhibits pronounced regional disparities, with southern and western states—such as Maharashtra, Gujarat, and Tamil Nadu—demonstrating advanced industrialization, higher per capita incomes, and robust infrastructural development. Conversely, eastern and northern states, including Bihar, Jharkhand, and Uttar Pradesh, lag in key socioeconomic indicators such as human development indices, sectoral employment diversification, and poverty reduction. These imbalances stem from heterogeneous resource endowments, historical policy biases, and uneven fiscal allocations, perpetuating divergent growth trajectories. Such spatial inequities underscore systemic challenges in reconciling competitive federalism with equitable development, necessitating targeted interventions to harmonize regional progress within India's federal architecture.

Race to the Bottom: Fiscal Populism and Freebies

India's competitive federalism faces a "race to the bottom" challenge as states escalate fiscal populism through subsidies and freebies, crowding out productive investments. Despite RBI warnings, states allocated ₹9.2 lakh crore (2.8% of GDP) to capital expenditure in FY25, with subsidies—farm waivers, free electricity, cash transfers—straining budgets. Punjab, Kerala, and Tamil Nadu exhibit acute fiscal stress, with debt-to-GDP ratios

exceeding FRBM thresholds. While Fiscal Responsibility Laws reduced aggregate state debt to 28.5% (2024), revenue deficits persist. The RBI advocates rationalizing subsidies, enhancing tax compliance via AI, and debt consolidation to balance welfare imperatives with fiscal sustainability, averting Sri Lanka-like crises.

Centralization vs. State Autonomy

India's Goods and Services Tax (GST) has reshaped fiscal federalism, centralizing tax authority via the GST Council's weighted voting structure, which marginalizes state autonomy. While GST streamlined indirect taxation and enhanced economic integration, manufacturing-heavy states like Maharashtra, Tamil Nadu, and Karnataka lost critical fiscal discretion, eroding their capacity to tailor policies to local needs. Post-2017, delayed compensation transfers—exacerbated by pandemic-induced shortfalls—highlighted states' dependency on central allocations, exposing fiscal vulnerabilities^[49]. To reconcile cooperative federalism with competitive autonomy, reforms must recalibrate the Council's decision-making, ensure equitable revenue-sharing, and restore state agency in fiscal governance, balancing national coherence with subnational resilience.

Conclusion

India's federal architecture, conceived to harmonize central authority with regional autonomy, has transitioned toward competitive federalism in the post-liberalization era, shaped by legislative, fiscal, and institutional reforms such as the GST Council and NITI Aayog. While this paradigm has spurred regulatory innovation and economic integration, it has also amplified structural asymmetries and intergovernmental tensions, evident in fiscal centralization, resource disputes, and adversarial politics. Judicial interventions and economic imperatives further mediate this duality, exposing the fragility of cooperative mechanisms in the face of politicized governance and uneven developmental trajectories.

To avert zero-sum outcomes, recalibration must prioritize procedural equity, fiscal decentralization, and deliberative frameworks that reinforce institutional trust. Strengthening participatory subnational governance, depoliticizing critical sectors, and ensuring equitable resource distribution are vital to transforming competition into constructive engagement. India's federal future hinges on reimagining competitive dynamics as a normative commitment to inclusive growth, balancing efficiency with constitutional mandates of equity. Sustaining this equilibrium requires aligning competitive incentives with cooperative imperatives, ensuring federalism remains a catalyst for unity amid diversity rather than a source of discord.

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