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EDITORIAL ANALYSIS

Beyond Industrial Targeting: On Karnataka and the Public-Goods State

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Beyond Industrial Targeting: On Karnataka and the Public-Goods State

 **Business Standard** 19 June 2026 **GS3**

Source: ujyari.com — researched, fact-checked & UPSC-mapped



INTERVIEW ANGLE

"Should a state government try to pick winning industries, or focus on the public goods that let any industry succeed? What does competitive federalism reward in practice?"

Source: [Original editorial](#)  [Business Standard](#)

 **Every fact web-verified against primary sources** (<https://ujyari.com/how-we-verify/>)

WHY THIS MATTERS NOW

Karnataka, one of India's most dynamic state economies, faces a choice about its next growth phase: chase favoured industries with incentives, or fix the **public goods** that let any firm succeed. For an aspirant, this is a GS3 case on **industrial policy, competitive federalism** (<https://ujyari.com/terms/federalism/>) **and the enabling state**, a debate that applies to every Indian state competing for investment.

THE CRUX IN 60 WORDS

Industrial targeting through subsidies misallocates capital and invites rent-seeking; the real constraints on firms are **power, water, roads, land and clean administration**, all **public goods**. These are non-rival and non-excludable, lifting every sector at once. In a federal economy, **competitive federalism** rewards states that supply capability and predictability over the deepest discounts. Karnataka's next phase is the **enabling state**, not finer targeting.

THE ISSUE, DECODED

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ELEMENT	WHAT IT IS	WHY IT MATTERS
Industrial targeting	Subsidising chosen sectors	Misallocates capital, invites rent-seeking
Public goods	Non-rival, non-excludable infrastructure and services	Raise productivity across all sectors
Enabling state	Creates conditions, not winners	More durable than picking favourites
Competitive federalism	States vying for investment	Rewards capability over subsidy depth

THE ANALYSIS: WHY PUBLIC GOODS BEAT TARGETING

- ❶ **Targeting misallocates.** Favouring chosen sectors pushes capital toward politically picked winners and invites capture.
- ❷ **The binding constraints are shared.** Power, water, roads, land and approvals limit all firms, and these are public goods.
- ❸ **Public goods lift everyone.** A well-run city attracts software, manufacturing and start-ups alike, without the state guessing.
- ❹ **Federalism rewards capability.** Subsidies can be matched; a well-governed city cannot be quickly copied.

DATA AND INSTITUTIONS VAULT

public goods, *non-rival and non-excludable (Samuelson)*; the **enabling state** versus the **targeting state**. **Mechanism: competitive federalism**, *states competing for investment*; the contrast with **cooperative federalism** (<https://ujjiyari.com/terms/cooperative-federalism/>). **Constraints on firms:** *power, water, logistics, land markets, ease of doing business* (<https://ujjiyari.com/terms/ease-of-doing-business/>), *urban services*. **Frame:** *Karnataka as a high-growth, urbanising state (Bengaluru) facing infrastructure strain*. **Linkage:** *industrial policy debate; agglomeration economies; municipal finance and urban governance (74th Amendment)*.

THE DEBATE

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Argument for targeting: Footloose, high-value industries with strong agglomeration effects may need targeted incentives to anchor a first mover and overcome hesitation.

Argument for public goods: Targeting misallocates and invites rent-seeking; reliable infrastructure, governance and services lift every sector and cannot be easily copied, making them the durable advantage.

The balanced verdict: Targeted nudges have a **marginal role** for specific agglomeration-heavy sectors, but they are a **supplement, not a substitute**. The foundation is the enabling state: public goods first, fine-tuned incentives only at the edge.

HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

*A weak answer reaches for incentives as the policy lever. The strong answer first identifies the **binding constraint**, the thing firms cannot get past, and notes that it is usually a public good (power, governance, land), not a missing subsidy. The move, “find the binding constraint,” is the core of growth diagnostics and applies far beyond Karnataka.*

DIAGRAM-IN-WORDS

Targeting state -> subsidise chosen sectors -> misallocation + rent-seeking -> narrow, fragile gains. The alternative: enabling state -> supply public goods (infrastructure + governance + services) -> productivity rises across all sectors -> broad, durable growth. Under competitive federalism, the enabling state attracts investment by capability, not discounts.

THE WAY FORWARD

- ① **Shift from subsidy-led targeting** to investment in urban infrastructure and civic services.
- ② **Build governance capacity:** faster approvals, transparent land markets, clean administration.
- ③ **Strengthen municipal finance** so cities can deliver public goods.
- ④ **Let competitive federalism reward enabling states**, with targeted incentives reserved for genuine agglomeration cases.

THE TAKEAWAY BOX

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“The enabling state, not the targeting state, drives durable growth.” Examine with reference to the provision of public goods and competitive federalism in India. (250 words)

“The state that endures is the one that enables; Karnataka’s path forward runs through public goods, infrastructure, governance and services, not through ever-finer industrial targeting.”

public goods (non-rival, non-excludable) · enabling state · competitive vs cooperative federalism · agglomeration economies · 74th Amendment · municipal finance.

Should a government try to pick winning industries, or build the public goods that let any industry succeed?

Connects to GS3 PYQs on industrial policy, infrastructure and growth, and to GS2 on federalism; a probable question is the enabling-versus-targeting framing above.

static GS3 on industrial policy and infrastructure; the Fed-spillover editorial in this edition on macro conditions for growth.

Sources: *Business Standard* (<https://www.business-standard.com/opinion/editorials>), *NITI Aayog* (<https://www.niti.gov.in>)

Source: Beyond Industrial Targeting: On Karnataka and the Public-Goods State — Ujjyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

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Karnataka's next phase of growth depends less on the government picking industries to favour and more on the public goods, urban infrastructure, governance and civic services, that enable economic activity across the board, making the case for an enabling state and for competitive federalism that rewards capability over subsidy.


SUPPORTING

- Industrial targeting through subsidies and special incentives often misallocates capital and invites rent-seeking, while the binding constraints on firms are usually power, water, roads, land and clean administration.
- Public goods are non-rival and non-excludable: good urban infrastructure and governance benefit every sector at once, unlike incentives captured by a chosen few.
- In a federal economy, states compete for investment, and the ones that win durably are those that supply reliable public goods and predictable governance, not the deepest subsidies.


COUNTER

Some argue that targeted incentives are necessary to anchor footloose, high-value industries and to overcome first-mover hesitation, especially in sectors with strong agglomeration effects.


WAY FORWARD

Shift from subsidy-led targeting to investment in urban infrastructure, governance capacity and civic services, strengthen municipal finance, and let competitive federalism reward enabling states.


MAINS ANSWER FRAMEWORK

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QUESTION

"The enabling state, not the targeting state, drives durable growth." Examine with reference to the provision of public goods and competitive federalism in India. (250 words)

INTRODUCTION

The instinct of an ambitious state is to chase marquee industries with incentives. Karnataka's experience suggests the more durable lever is quieter: the public goods that let any firm, in any sector, succeed.

BODY

Industrial policy in India has long leaned on targeting, identifying favoured sectors and courting them with subsidies, tax breaks and special zones. The record is mixed.

Targeting misallocates capital toward politically chosen winners, invites rent-seeking, and rarely addresses the constraints that actually bind firms: unreliable power and water, congested roads, opaque land markets, slow approvals and weak urban services. These are public goods, non-rival and non-excludable, and their distinguishing virtue is that they raise productivity for every sector at once rather than for a captured few.

A city with reliable infrastructure, clean administration and good civic services attracts software firms, manufacturers and start-ups alike, without the state having to guess which will thrive. This is the enabling state: it creates the conditions for growth instead of trying to author the growth itself.

Competitive federalism sharpens the point. As states vie for investment, the durable winners are those that offer capability and predictability, not merely the deepest discounts, because subsidies can be matched while a well-run city cannot be quickly copied.

The fair counter is that some high-value, footloose industries with strong agglomeration effects may need a targeted nudge to anchor a first mover. That is true at the margin.

But it is a supplement, not a substitute, for the foundational work of building infrastructure, governance and services. For Karnataka, whose growth has strained its cities, the next phase is less about new incentive schemes and more about fixing the public goods that let its private dynamism breathe.

CONCLUSION

The state that endures is the one that enables. Karnataka's path forward runs through public goods, infrastructure, governance and services, not through ever-finer industrial targeting.


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