

OPINION

# Debt, demography, democracy

The concluding article of a two-part series busts some myths of the 3D debate in intergovernmental transfers



Soumya Kanti Ghosh

The recommendations of the 16th Finance Commission (FC) are now in force, beginning April 2026 and valid till March 31, 2031. In principle, the 16th FC addresses two crucial questions that are converging in Indian fiscal federalism.

In this concluding part of a two-part series, we address debt, demography and democracy in intergovernmental transfers.

As India's demographic profile evolves and concerns grow about a narrowing demographic dividend, a recurring question in policy debates is whether population ageing weakens states' fiscal capacity and warrants explicit recognition in intergovernmental transfers. Thus, do ageing states really face greater fiscal stress?

In fact, the 15th FC introduced total fertility rate (TFR) as one of the criteria for devolution. It awarded each state a per capita share in inverse proportion to its TFR. To convert per capita share into the total, it used the 1971 Census population. It was reasoned that the shift from the 1971 Census population to the 2011 one in implementing the population criterion had led to too large a loss in the devolution shares of states that had successfully arrested the growth rate of the population between 1971 and 2011. The inverse TFR offset some of that loss.

The 16th FC noted that, in the current context, the earlier benefits of slower population growth are increasingly being offset by concerns over ageing populations, as seen in Japan, Europe, and China. Therefore, the justification for basing devolution on inverse TFR became weak over time. In fact, the 16th FC replaced TFR with the inverse of population growth between 1971 and 2011 at a lower weight of 10 per cent, compared to 15 per cent for TFR under the 15th FC. Thus, while the 16th FC has seen a phasing out of the demography-related criteria, it has opted for a gradual transition keeping in mind its responsibility towards maintaining the equity efficiency balance. Together, these design choices signal de-emphasising demography-based criteria in horizontal devolution.

Interestingly, the Reserve Bank of India (RBI) report on "State Finance 2025-26", which was published just before the release of the 16th FC report in November, highlighted that demography increasingly influences state finances. In principle, ageing states have low revenue and higher expenditure with more debt burden. Hence the report suggested that including old-age dependency ratio as a criterion in FC transfers, and thereby demographic criteria, should have a role to play in overall devolution.

Using projections from the Technical Group on Population, the report had classified states into youthful, intermediate, and ageing cohorts. By 2026, Kerala and Tamil Nadu are expected to enter the ageing category, and by 2036, nearly 12 states may do so. At the same time, India remains relatively young, with a median age of 28. The report further suggested that youthful states perform better in revenue mobilisation, while ageing states lag.

### Fragile methodology

We, however, believe that this conclusion from the RBI state report rests on a fragile methodological foundation: This exercise is done with respect to clubbing the states in youthful, intermediate and cohort buckets by simply taking the tax revenue as a percentage of gross state domestic product (GSDP), and taking the simple average for each cohort. However, such an approach is problematic. It assigns equal weight to vastly unequal states and ignores differences in economic size, fiscal capacity, and institutional strength. More importantly, cohort composition itself changes over time, making such averages unstable.

State-level evidence further weakens the claim. Between 2021 and 2025, Uttar Pradesh (youthful) saw revenue receipts rise by 2.04 times, while Tamil Nadu (ageing) recorded a 1.71-time increase. However, Telangana (intermediate) outperformed both, with an increase of 2.19 times. These variations highlight that fiscal performance is state-specific, not cohort-driven.



ILLUSTRATION: BINAY SINHA

We follow a more meaningful approach — to examine states' shares in aggregate revenues, which better captures fiscal capacity and relative performance. In fact, from a federal fiscal perspective, a state can be regarded as fiscally efficient if it is able to preserve or improve its relative share in aggregate revenue receipts over time, as this reflects sustained revenue mobilisation capacity vis-a-vis other states, and captures institutional strength. Accordingly, we construct the same state cohorts of youthful, intermediate and ageing as the RBI has done, but with two fundamental differences.

First, we estimate the share of revenue receipts, tax revenue and non-tax revenue relative to the overall share across all 28 states, and not with respect to that particular cohort, as the RBI report has done. This is important as the devolution criteria is always determined with respect to all states and not within the cohort.

Second, we estimate the ratios with respect to the overall numbers and GSDP.

**AN EQUALLY IMPORTANT BUT IGNORED DIMENSION IS MIGRATION. RESIDENT POPULATION STRUCTURE IS AN IMPERFECT PROXY FOR FISCAL CAPACITY IN AN ECONOMY WITH SIGNIFICANT LABOUR MOBILITY**

### RBI conclusions reversed

Once we do this, as the table titled "Revenue indicators of states" shows, the share of ageing states in total revenue receipts rises from 3.92 per cent in 2021 to 9.74 per cent in 2025, while the share of youthful states declines from 42.26 per cent to 35.24 per cent. Similar trends hold for own tax revenue (ageing: 4.12 per cent to 12.16 per cent; youthful: 34.78 per cent to 26.95 per cent), and own non-tax revenue (ageing: 4.36 per cent to 12.89 per cent; youthful: 42.38 per cent to 27.10 per cent). Thus, the trends are completely reversed from the RBI report. If the revenue trends are any guide, the case for compensating ageing states purely on demographic grounds becomes significantly weaker.

The income story further reinforces this conclusion. Per capita GSDP in ageing states rises from about ₹2.2 lakh in 2021 to ₹3.36 lakh in 2025, while youthful states see a marginal decline from ₹1.40 lakh to ₹1.32 lakh. This does not imply that ageing states face no fiscal pressures, but it does indicate that they begin from a stronger revenue base. Conversely, youthful states continue to grapple with deeper structural constraints. Youthfulness, therefore, is not automatically a dividend, just as ageing is not inherently a fiscal burden.

An equally important but often ignored dimension is migration. Resident population structure is an imperfect proxy for fiscal capacity in an economy with significant labour mobility. If working-age individuals migrate from youthful to ageing states, the tax base, consumption demand, and service economy shift as well. An ageing state that attracts labour may be fiscally stronger than a youthful state that exports it. This makes demographic measures based solely on resident age

structure potentially misleading.

The RBI report also links ageing to higher debt burdens, but this relationship is also not robust. Debt in ageing states declines from 40.3 per cent of GSDP in 2021 to 33.6 per cent in 2025, while in youthful states, it falls from 34 per cent to 31.8 per cent. Notably, the ageing category in 2021 consisted solely of Kerala, which had an unusually high debt ratio of 40.3 per cent, skewing the cohort average. By 2026, although Kerala still has elevated debt (35.5 per cent), Tamil Nadu reduced its debt from 31.8 per cent to 29.2 per cent. Meanwhile, in 2026, high debt is also observed in youthful and intermediate states such as Rajasthan (35.9 per cent), Bihar (36.8 per cent), and Punjab (46.4 per cent) suggesting no systematic link between ageing and indebtedness.

### Old age dependency

Despite all these limitations, the RBI report proposes incorporating the old-age dependency ratio (OADR) into the devolution formula. We now replicate this exercise using the 16th Finance Commission framework but include all 28 states, unlike the RBI which excludes Goa and most NEH (North-East and hill) states (with a weightage of approximately 5 per cent). Our results show that when we explicitly introduce OADR with a 5 per cent weight (scaled by 2011 population), the impact is negligible. The share of youthful states declines marginally to 7.88 per cent (-3 basis points), while that of ageing states increases to 3.29 per cent (+5 basis points) from what the 16th FC has estimated. These results are in fact better than what the OADR criteria would have achieved. The 16th Finance Commission framework thus already captures more efficiently the demographic differences implicitly through existing criteria such as population, income distance, and area.

More fundamentally, OADR lacks a strong conceptual basis. Horizontal devolution is guided by equity (equalising fiscal capacity) and efficiency (incentivising fiscal discipline). The old-age dependency ratio does not map cleanly into either. It reflects specific expenditure needs, which are better addressed through targeted grants, not unconditional tax sharing. Therefore, both on empirical and conceptual grounds, incorporating OADR as a distinct criterion in horizontal devolution appears unwarranted. The marginal redistribution achieved is insignificant, while the risk of complicating the formula and introducing normatively ambiguous weights is substantial.

### The democracy debate

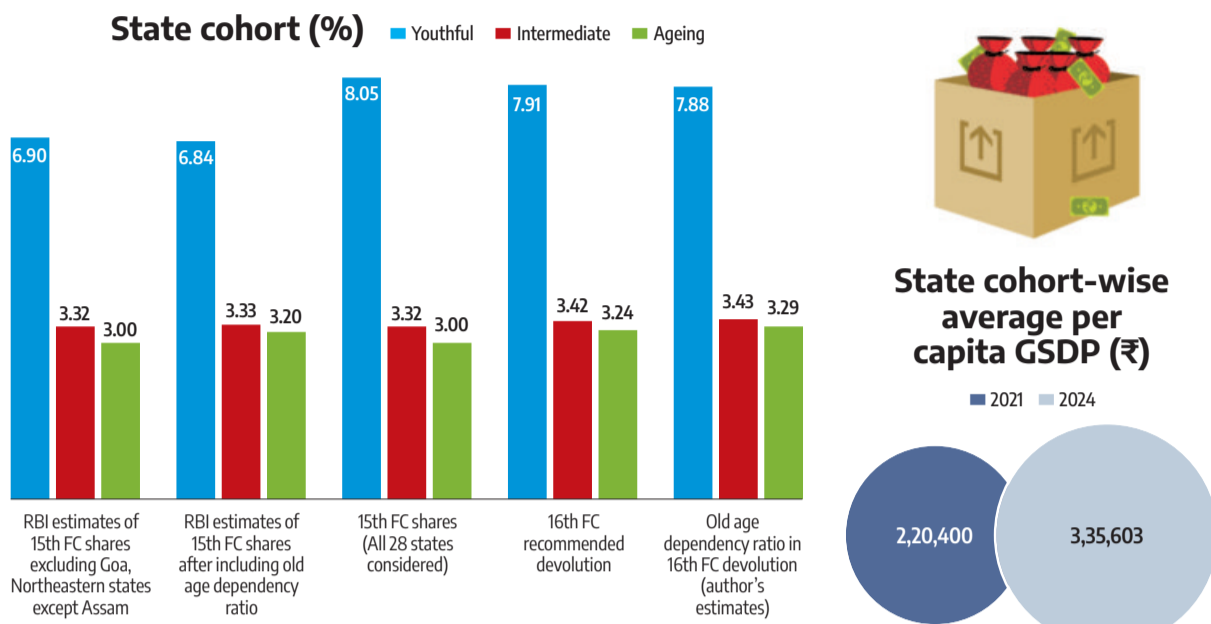
Finally, the debate must be situated within a broader framework of democracy. Demographic outcomes are not accidental. States such as Kerala and Tamil Nadu achieved lower fertility and ageing through sustained investments in health, education, and social development. These are democratic policy choices. But should fiscal transfers reward or compensate such choices? The Finance Commission is not

## SHIFTING FISCAL UNDERCURRENTS

	Revenue indicators of states (as % of GDP)				Share of a cohort in all states' revenue metrics			
	2010-11	2015-16	2020-21	2024-25	2010-11	2015-16	2020-21	2024-25(BE)
<b>Revenue receipts</b>								
Youthful	16.8	17.8	18.5	19.5	64.9	55.7	42.3	35.2
Intermediate	13.7	13.8	13.1	15.9	35.1	44.3	53.8	55.0
Ageing	-	-	12.6	10.2	-	-	3.9	9.7
<b>Tax revenue</b>								
Youthful	10.7	12.2	10.8	14.3	62.9	54.6	41.7	35.0
Intermediate	9.5	9.6	8.1	10.0	37.1	45.4	54.8	54.8
Ageing	-	-	7.7	8.1	-	-	3.4	10.2
<b>Own tax revenue</b>								
Youthful	6.3	6.2	5.8	6.9	56.4	47.3	34.8	26.9
Intermediate	7.5	6.7	5.7	7.0	43.6	52.7	61.1	60.9
Ageing	-	-	6.2	6.4	-	-	4.1	12.2

Source: RBI State Finance Report

Source: RBI & Author's estimates



designed to adjudicate between competing development models. Its constitutional role is to correct imbalances, not to reward long-term trajectories. Debt, therefore, is not a demographic destiny, but the cumulative outcome of fiscal effort, institutional quality, policy choices, and migration dynamics.

The relationship between debt, demography, and democracy is complex and indirect. Demography shapes needs while democracy determines policy responses, and debt reflects the cumulative outcome. Using demographic indicators as a basis for transfers risks oversimplifying this relationship.

The Finance Commission has always operated on a knife-edge between equity and efficiency. In a federal

democracy like India, states exercise significant autonomy in taxation, expenditure priorities, and welfare policies.

Thus, while demography shapes long-run socio-economic conditions, democracy determines how governments respond through fiscal policy, and debt emerges as the cumulative outcome of these policy choices. Future FCs should be mindful of this debate and new Census data may reveal more nuances as and when it is released in 2027.

The writer is group chief economic advisor, State Bank of India, member, 16th Finance Commission, and member, Economic Advisory Council to Prime Minister. Falguni Sinha contributed to research. Views are personal

**TENDER NOTICE**

**BarodaSun Technologies Ltd.** (Wholly owned subsidiary of Bank of Baroda) invites Request for Proposal for Selection of Service Provider for Supply, Implementation & Maintenance of Human Resource Management system.

Last date of Bid submission 28<sup>th</sup> April, 2026. For details visit Tender section of our website "www.barodasuntechnologies.com".

Place: Mumbai MD & CEO  
Date: 07.04.2026 (BSTL)

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(Regd. Office : PSEB Head Office, The Mall, Patiala-147001)  
Corporate Identity Number (CIN): U40109PB2010SGC033813  
Website: www.pspcl.in, (Contact No. 96461-55525)

Open E-Tender Enq. No. 722/P-3/EMP-W-13257 Dated: 02.04.2026

Dy.Chief Engineer/ Headquarter (Procurement Cell-3) GGSSTP, Roopnagar invites E-Tender ID No. ID: 2026\_POWER\_165195\_1 for Re-babbiting and machining of turbine bearing no. 1, 5 and fitting and machining of new bearing liner in bearing no.2.

For detailed NIT & Tender Specification please refer to <https://eproc.punjab.gov.in> from 02.04.2026/ 05.00 PM onwards.

Note:- Corrigendum and amendments, if any, will be published online at <http://eproc.punjab.gov.in>.

RTP-37/26 1079/12/2026-27/10201

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**NOTICE OF POSTAL BALLOT & E-VOTING**

Members of SecureKloud Technologies Limited ("the Company") are hereby informed that, pursuant to the provisions of Section 108 and 110 of the Companies Act, 2013 (the "Act") read with Rule 20 and Rule 22 of the Companies (Management and Administration) Rules, 2014 (the "Rules") including any amendment(s) thereof, read with the Ministry of Corporate Affairs ("MCA") General Circular Nos. 14/2020 & 17/2020 dated April 8, 2020 and April 13, 2020 respectively, MCA General Circular No. 09/2024 dated September 19, 2024, the latest being General Circular No. 03/2025 dated September 22, 2025 Secretarial Standards 2 on General Meetings issued by the Institute of Company Secretaries of India and Regulation 44 of the Securities and Exchange Board of India (Listing and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), read with SEBI Circular No.: SEBI/HO/CFD/CMD/IR/P/2020/242 dated December 9, 2020, and SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/P/IR/2024/133 dated October 03, 2024 (Collectively referred to as "Circulars"), the Company seeks approval of members through postal ballot in respect of the special businesses as set out below and as contained in Postal Ballot Notice dated March 27, 2026 by passing the said resolutions through Postal Ballot, only by way of remote e-voting.

S. No.	Description of Resolutions	Type of Resolution
1	To consider and approve appointment of Mr. Duraiswamy Basuvaiah (DIN: 09258691) as a Non-executive and Independent Director for a term of five consecutive years w.e.f. February 12, 2026.	Special Resolution
2	To consider and approve appointment of Mrs. Annaganalaur Srimalathi Venkata Narayanan (DIN: 08328823) as a Non-executive and Independent Director for a term of five consecutive years w.e.f. February 12, 2026.	Special Resolution

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Place: Chennai  
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For SecureKloud Technologies Limited By the order of the Board Jayashree Vasudevan Company Secretary and Compliance Officer

