



THEIR VIEW

MINT CURATOR

16th Finance Commission award snaps a tradition of impartiality

The clock has sadly been turned back on striking a balance between the Centre and states and between equity and efficiency



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The Finance Commission is a key pillar of India's federal fiscal architecture. A constitutional body appointed every five years, it is expected to arbitrate impartially between the central and state governments and among the latter themselves in allocating tax revenues collected by the Central government on behalf of all administrations. Though FCs are not widely known, their awards have far reaching implications for fiscal federalism and macroeconomic fiscal outcomes. Successive finance commissions (FCs) have established a sound tradition of impartial awards. Slight shifts in one direction or another notwithstanding, most earlier FCs have tried to navigate a balanced course between interests of the central government and those of states and between considerations of equity and efficiency. The 16th Finance Commission (16th FC) report has changed this course. It reveals a distinct re-orientation in favour of the central government *vis-à-vis* the states and shows little concern for equity. Also, unlike past FCs, it has expressed opinions without always presenting data in their support. Hence, it is not possible to judge whether some of these opinions are based on robust evidence. Renowned domain experts have therefore been quite critical of the 16th FC awards (Rangarajan & Srivastava in *The Hindu*, 2 March; Govinda Rao in *Business Standard*, 12 March). This column illustrates how a once-balanced approach has been changed in both vertical transfers between the Centre and states and the horizontal devolution among states.

In its tax devolution formula, the 16th FC has maintained the share of states at 41% of the shareable pool, like the 15th FC, giving the appearance of continuity. However, the shareable pool itself has been progressively squeezed, with the Centre increasingly resorting to resource mobilization through cesses and surcharges, which are Constitutionally excluded from the shareable pool. Further, the 16th FC has eschewed most grants, especially the revenue deficit grant (RDG), though grants constitute the second channel of non-discretionary FC transfers to states. In principle, the RDG should be computed normatively as the difference between the resource needs of a state—to provide a level of public services comparable with all other states—and the sum of its own revenue raising capacity and tax devolution. Typically, RDGs have never fully offset the fiscal disability of states, but they have helped to reduce the gap. By ignoring the impact of GST and doing away with the RDG altogether, the 16th FC award has led to a sharp reduction in the share of central gross revenue transferred to states. That share rose from around 27% in the 11th FC award to a peak of 35.6% in the 14th FC award, moderating marginally to 34.4% in the 15th FC award. Based on 2026-27 budget allocations, Rangarajan and Srivastava esti-



mate that the share is now down to 32.7% under the 16th FC award.

FC transfers to states, both devolution and grants, are transparent and non-discretionary. With a reduction in the share of such FC transfers, the share of discretionary Centrally Sponsored Schemes (CSS) has risen to around 50% of total transfers to states. Since generally 40% of the cost of these schemes have to be financed by states, CSS spending entails a significant diversion of states' resources to priorities of the Centre from those of states. Moreover, these schemes relate to sectors that are often state subjects as per the Seventh Schedule of the Constitution. As such, the increasing share of CSS transfers constitutes a major distortion of the federal architecture envisaged in the Constitution. The 16th FC awards have significantly exacerbated this distortion.

Finally, the 16th FC has appropriately been very critical of the increasing provision of budgetary transfers and non-merit subsidies by states to power distribution companies and populist schemes for vote banks, or 'freebies' as they are often called. However, the 16th FC makes no adverse comment about bailouts of central public undertakings or the proliferation of central 'freebie' schemes, which is further evidence of its centrist bias.

Turning to the horizontal transfers among states,

the 16th FC has introduced a new component in its devolution formula, 'contribution to GDP,' with a weight of 10%. This has apparently been done to represent fiscal efficiency while the FC has dropped standard measures of states' fiscal performance used by earlier FCs. What the new component actually reflects is not the fiscal efficiency of a state, but its economic strength, the size of its gross state

domestic product (GSDP), demographic size, capital stock, etc, which have little to do with fiscal performance. This component biases the devolution in favour of larger, more developed states, undermining equity.

With every FC award, there are some states that gain share while some lose when allocation formulas and weights change. This is because the total of all state shares must add up to 100%. The difference this time is that most of the states that have lost share are India's smaller and poorer states: Bihar, Chhattisgarh, Uttar Pradesh, Madhya Pradesh, Rajasthan, Odisha, West Bengal and all the northeastern hilly states that are totally dependent on central transfers.

In navigating a path between the Centre and states and between equity and efficiency in its award, the 16th FC has unfortunately turned the clock back. We have to live with this award for the next five years. Hopefully the 17th FC will take us back to the well-established balanced path.

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The 16th FC's report exhibits a centrist bias in its devolution of shareable taxes to Indian states, its new formula for their split-up among states and in its criticism focused on state-level freebies.

The country's poorer states have been adversely effected and we have to live with this award for the next five years. Hopefully the 17th FC will restore the balance we have lost.

Don't let 'AI washing' mask an insidious labour market crisis

AI being used as a pretext for layoffs may be hiding its real impact



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The danger of entry-level jobs being taken over by AI needs attention. ISTOCKPHOTO

Singapore-based Crypto.com said last week that it was cutting 12% of its workforce. Earlier, Atlassian and Block had cited AI adoption for job losses. But what's lacking in these pronouncements is the evidence of how, exactly, AI is replacing workers. Comprehensive data on whether AI is destroying jobs, lifting productivity or reshuffling routine tasks remains patchy at best. And that vacuum is being filled with fear-mongering and market-friendly spin. No doubt, it is reshaping how people work, but for governments and business leaders to effectively react, far more data and transparency is needed.

In a world where engagement algorithms shape public speech, the loudest voices are rarely the most nuanced. Stories of white-collar bloodbaths have gone viral in recent weeks—and even moved markets—despite little hard evidence. The narrative is potent. But the bigger danger may not be that AI is causing a 'jobocalypse,' but that these headlines obscure how AI tools are being used to erode the entry-level roles that train tomorrow's workforce. This 'AI washing' becomes a distraction from the harder policy work required for periods of rapid technological change.

Investors are rewarding AI washing, but should they? Recasting pandemic overhiring and cyclical belt-tightening as innovation and efficiency may help send share prices higher in the near term, but they don't vouch for sound fundamentals or wise management.

The layoffs narrative does not neatly fit in Asia. In Japan, one survey found that nearly 30% of 246 listed companies were increasing their workforce after adopting AI. An OECD report published last October argued AI-induced job losses may be less common in Japan than elsewhere due to chronic labour shortages driven by demographic decline and people's tendency to stay at one company for long periods. Japanese workers, it found, are more likely to see AI as a source of new jobs than a destroyer of them. A similar tension is emerging in South Korea. IMF researchers say that while about half of jobs are "exposed to AI," the negative effects of an ageing population could be mitigated through AI adoption.

That isn't an argument for complacency. Older workers, non-regular employees and entry-level staff are less likely to benefit from the shift, which makes training and workplace adoption programmes all the more important. The real balancing act is how to use AI to ease labour shortages without allowing it to widen inequality or

disrupt livelihoods. This is where Asia can show leadership.

The gap between what is known and what is being claimed is already too wide. Breathless predictions of how all white-collar work will be automated within 18 months aren't analysis, but marketing. And they're also bad for the technology itself. Public trust in AI is fragile. Tech leaders who want it widely adopted should stop selling every restructuring as proof that machines are turning humans obsolete.

Even if the overall scale of layoffs is being overstated, early signals suggest pain for entry-level workers. It may make short-term business sense to use a model for tasks once handed to an intern. But it's a short-sighted bargain.

One of AI's biggest limitations is still hallucinations. Human oversight remains essential for its use in businesses, hospitals and elsewhere. But people cannot check a machine's output if they have no expertise themselves. Companies risk hollowing out the apprenticeship layer where knowledge workers learn by doing. In my line of work, for example, an experienced editor can spot the clichés, repetitive phrases or dramatic but inconsistent metaphors that AI tools love to use. An engineer who has reviewed hundreds of design drawings can spot when an AI tool's elegant solution will fail in the real world.

That should worry governments as much as employers—especially in Asian countries where a Gen Z job crisis has been brewing. Failing to invest in the next generation of talent will backfire. Large numbers of unemployed educated youth do not make for a stable society. Companies, universities and policymakers need to do more to protect training paths and junior roles.

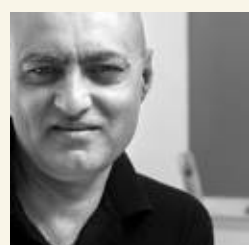
Lawmakers trying to tackle AI's impact on jobs should start by asking companies that cite AI as a reason for layoffs to disclose what that actually means: where the technology was utilized, what work changed, what productivity gains were measured and how many jobs were truly eliminated as a result. Only then can governments build sensible responses, from stronger social safety nets to targeted training and reskilling programmes.

AI is reshaping the labour market. But the big danger is its slow hollowing-out of career ladders. ©BLOOMBERG

MY VIEW | PEN DRIVE

There is a case for an AI Agent for every Indian citizen

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Her name is Lakshmi. She lives in a small village in the Krishna delta, Andhra Pradesh, where the fields flood in September and the nearest bank branch is a one-hour bus ride away. She wants to buy a buffalo, not as an aspiration, but as a business plan. A government scheme could fund it. But she cannot read or fill a form and has no one to help her navigate the paperwork.

The bank exists. The scheme exists. The money exists. The gap is not financial. It's procedural. And procedural complexity, invisible to those of us who navigate it daily, is one of the most efficient destroyers of wealth in India.

This is the problem at the heart of a white paper I co-authored with colleagues from MIT, IIT Kanpur, IISc and other institutions for the India AI Impact Summit, titled 'Doot: The AI Agent for Every Indian Citizen.' It outlines the architecture for an AI agent designed to work for every Indian citizen.

Lakshmi talks to the Doot app on her smartphone about her need for a loan. Her personal AI agent finds the right scheme, verifies her identity through Aadhaar KYC, retrieves her income and eligibility certificate documents from DigiLocker and initiates the loan through the bank's systems automatically, without requiring her to understand and fill out forms by hand, and without a middleman. India's digital public infrastructure (DPI) stack is formidable: Aadhaar authenticates a billion identities and UPI moves ₹250 trillion annually in payments. What is missing is the agentic layer that converts citizen intent into government process and banking workflow. With sovereign large language models like Sarvam now capable of nuanced, culturally grounded conversation across India's major languages, the linguistic barriers that kept Lakshmi outside the system can be bridged through a conversational AI app.

India's digital plumbing is remarkable. The next step is making it truly intelligent and agentic: understanding the person it represents, their context and history, and then navigating the full complexity of what lies beneath: KYC norms, bank regulations, government eligibility rules, scheme docu-

mentation requirements. Agentic AI doesn't just converse. It can act, the way a knowledgeable and tireless community banker would. And it can be instructed in every Indian language via a low-cost smartphone.

But digital capability alone is not enough, it needs safeguards. At a billion-user scale, the architecture must be safe, sovereign and accountable. Every Doot agent is cryptographically bound to the citizen's identity, with all authority flowing from the citizen, not the platform. Consent is granular, time-limited and revocable. For high-stake actions like financial transfers, the agent requires explicit human permission to proceed. A policy layer encodes law, financial limits and data protection rules, ensuring that the agent can only act within legal and regulatory bounds. All actions must be logged in tamper-evident audit trails visible to citizens.

Even though all of this sophisticated digital

orchestration takes place behind the scenes, Lakshmi is completely shielded from its complexity. She controls her transaction through a simple, intuitive conversational interface in her language. Her agent tells her in plain language what it is about to do and waits for her voice confirmation before acting. It proves her eligibility without exposing her Aadhaar number. It accesses her income and eligibility certificates from DigiLocker only after getting her consent. When the disbursement arrives via UPI, she is immediately alerted, with an audit trail.

Lakshmi's story is not exceptional. Across India, millions of capable, resourceful people are locked out of systems that could genuinely help them—not because they lack cognitive capabilities, but because the digital interface was never built for them.

If unchecked, AI can deepen divides in society. If we allow AI to develop only for those with edu-

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Multitudes are unable to access welfare schemes and public services on account of procedural friction that an AI agent that speaks in all Indian languages could overcome.

An AI agent accessible via ordinary smartphones and designed to act invariably in the user's interest could bridge a digital divide and help India tackle its other disparities.