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Is the Education Expenditure Consistent with the Changing Demography in India?

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Abstract

This review paper studies the status of expenditure on education at the state level and its effect on the broader challenge of translating educational investments into productive employment by using the data published by the RBI named India's State Finances: A Study of Budgets 2025–26 as well as the report by AISHE 2021–22. The states in north eastern and the Himalayan region were characterized by younger populations and relatively smaller economies but were found to allocate a higher share of their GSDP to education. In contrast to the larger southern and western states that are now scourged with an ageing population and strengthened by a higher absolute GSDP dedicated a relatively lower percentage towards education. States like UP and Bihar reflected a higher youth bulge and face the intense pressure to expand access, resulting in massive graduate output, while better efficiency results could be seen in the southern states by producing more graduates per university despite a lower relative spending. The increasing old age dependency in these states will strain the investments by 2036. This review paper underlines the risk that India's changing demography might turn into a liability if we are unable to create employment by keeping pace with the expanding pool of educated youth at the same time calling for a region-specific policy intervention that addresses quality and employability.

Keywords: Education, Expenditure, Demography, State Finances, Youth, Unemployment

Introduction

The primary building blocks for any society moving towards development will always be invested in human capital developments. Education will always be the primary building block for human capital development in any society, and one certainly can't ignore that it is also one of the basic needs in any society. If we talk about India, education is categorised as a fundamental right of every individual in the society under the Right to Education Act, which, in a better expression, implies no individual can be denied basic education, and if denied, it is a punishable offence. Expenditure on education is one of the important social sector funds that the state and the central government invest in for human capital development. Based on the **Reserve Bank of India's State Finances: A Study of Budgets for 2025-26, on average, the states allocated 12.5% of their total expenditure on education (including sports, arts, and culture) in the budget estimates for 2025-26.**

Human capital building is the primary need for any society. Where school education inculcates the learning habit and curiosity towards the world, it's truly the higher education that trains the individual to become an active member and resource in the economy of any country. The quality of higher education is the stepping stone towards being employable in the current economy. In simple words, a knowledge-curious individual turns into a critical and refined person under the right kind of guidance in college.

"Higher Education, Government Spending & Statewide Youth Demography"

The pattern of spending differs from state to state based on many factors like demographics, geographical location, size of population, size of the state economy, etc. One thing to be noted here is that education comes under the concurrent list, which implies it is a subject of importance and investment for both the state and the central government. Each level of government plans, invests, and creates policies around education.

While discussing state spending, one can take a deep dive into several case studies to understand how education funding works as an entire system within the state budget. Inspired by several phases of differences within the Indian states. They can be categorised on the basis of the young/old population or the size of the Indian state, for example.

- **The northeastern and mountainous** states, which have a relatively smaller economic size and a younger population, generally allocate a higher percentage to the education sector (for example, Arunachal Pradesh 19.3%, Meghalaya 18.6%, and Himachal Pradesh 18.4%). In many cases, they use the central transfer to focus more on human capital development and skill enhancement (usually have smaller budgets but they do get extra support from the central government resources due to a variety of reasons, like being prone to natural calamity.)
- In contrast, the larger southern and western states (Maharashtra 10.3%, Tamil Nadu 9.6%, Karnataka 9.5%, and Kerala 9.0%), which are rapidly ageing, invest a smaller percentage, as they have higher absolute GSDP and an increasing burden of an ageing population (dependency ratio is projected to be above 20-30% by 2036 in Kerala and Tamil Nadu), which requires more allocations to pensions and healthcare.
- The states with higher absolute GSDP, such as Maharashtra, Gujarat, and Tamil Nadu, have the ability to invest substantial amounts in education even with lower percentage allocations, while the smaller or less industrialised states (notably in the Northeast) have relatively higher percentage allocations, often supplemented by grants from the union government.
- A general correlation is observed: higher GSDP states generally have a higher percentage of aged population, and they allocate a smaller percentage of their GSDP to education. On the other hand, lower GSDP states generally have a higher percentage of young population and allocate a higher percentage of GSDP to education.
- **The younger states of Bihar (14.3%) and Uttar Pradesh (13.1%),** which have more fiscal flexibility to grow their revenue bases, still face challenges of access . In contrast, the Ageing states face pressures of declining tax bases and crowding out, making it difficult to allocate discretionary funds to education and research.

Expenditure on Education in Indian States, total universities, and graduates produced

Rank	State/UT	Education Expenditure (as % of GSDP) (State Finances: A Study of Budgets of 2025-26)	Total Universities (AISHE 21-22)	Graduates Produced (AISHE 21-22)

1	Arunachal Pradesh	19.3	10	14,560
2	Meghalaya	18.6	11	21,090
3	Himachal Pradesh	18.4	30	66,658
4	Mizoram	18.3	3	6,326
5	Sikkim	17.4	9	9,019
6	Manipur	16.3	10	23,379
7	Nagaland	16.3	6	13,764
8	Tripura	16.2	5	23,239
9	Jammu and Kashmir	15.9	16	72,735
10	Uttarakhand	15.1	38	124,588
11	Bihar	14.3	37	410,485
12	Delhi	14.3	30	614,708
13	Odisha	14.1	37	243,070
14	Jharkhand	13.6	33	201,517
15	Rajasthan	13.3	90	707,179
16	Chhattisgarh	13.1	34	240,245
17	Uttar Pradesh	13.1	91	1,637,026
18	Goa	12.6	3	14,356
19	Punjab	12.6	40	237,990
20	Madhya Pradesh	12	77	765,365
21	Andhra Pradesh	11.6	47	477,861
22	Haryana	11.5	56	224,689
23	Puducherry	11.4	4	29,602
24	Gujarat	11.3	91	413,866
25	West Bengal	11	58	563,911
26	Maharashtra	10.3	74	1,201,050
27	Tamil Nadu	9.6	62	982,656
28	Karnataka	9.5	75	641,072
29	Kerala	9	25	244,869
30	Telangana	8.7	31	356,044
31	Assam	8.4	30	122,315

State-wise Old-Age Dependency Ratio (State Finances: A Study of Budgets of 2025-26)				
State/UT	**2011**	**2026**	**2031**	**2036**
India	13.8	17.6	20.1	23
Andhra Pradesh	16.7	21.2	24.6	28.9
Assam	11.3	14.8	17.7	20.9
Bihar	10.8	13.5	15.7	18
Chhattisgarh	12.6	16.1	18.7	21.5
Gujarat	13	17.8	20.8	24.1
Haryana	13.4	16.4	18.9	21.7
Himachal Pradesh	17	22.1	25.9	30.1
Jammu & Kashmir	11.9	16	19.2	22.9
Jharkhand	11.4	14.6	17	19.7
Karnataka	15.9	20	23.1	26.5
Kerala	19.8	26.1	30.1	34.3
Madhya Pradesh	12.7	15.3	17.4	19.8
Maharashtra	16.4	20	23.1	26.3
Odisha	15.4	19.7	22.8	26.1
Punjab	17.4	22.4	25.9	29.9
Rajasthan	12.3	15.5	17.9	20.5
Tamil Nadu	19	24.9	28.7	32.8
Telangana	15.7	19.7	22.8	26.1
Uttar Pradesh	12.3	14.3	16.3	18.6
Uttarakhand	14.5	18.2	21	24.1
West Bengal	14.7	19.7	23	26.7
Note: Green corresponds to lower dependency, yellow to moderate dependency, and red to higher dependency. **Source:** Staff estimates				

The Indian higher education sector shows a complex interplay and intermingling of budgetary allocations, distribution to several institutions in states, and actual production of human capital, keeping an account of proper skill development. State-wise and Union Territory-wise data reflect a unique regional trend where increased relative investment is seen in smaller and geographically challenged states, and large-scale graduate production is observed in large and economically thriving states, although not always in tandem.

Key findings

The population structure is a key determinant in the allocation of funds from state to state. If we consider the larger Indian states, we find that Bihar allocates more funds than the southern states because its

population structure has a larger percentage of younger citizens in comparison to states like Kerala. This implies that there is relatively lower pressure to provide funds for the overall welfare of older citizens, such as providing pensions.

- The southern states of Kerala, Tamil Nadu, Andhra Pradesh, and Telangana have older demographics with higher median ages (Kerala has the highest at 32 to 35+ in recent projections, followed by Tamil Nadu); lower fertility rates resulting in smaller youth bulges; and high GER (Gross Enrolment Ratio) in the 18-23 age group, often with the highest percentages in the country at 40% or higher. Their spending in education might be lower, as the data portrays Kerala at 9%, Tamil Nadu at 9.6%, and Telangana at 8.7%—yet they have a high number of graduates: 983,000 in Tamil Nadu, over 477,000 in Andhra Pradesh, and 641,000 in Karnataka. Their universities are efficient with high numbers of graduates emanating from each one, and they have the advantage of urban agglomeration with close links with the IT industry in Karnataka and Telangana and manufacturing and service industries in other southern states to translate high youth participation into output.
- The northern and eastern heartland states of Uttar Pradesh, Bihar, Madhya Pradesh, and Rajasthan have younger demographics with lower median ages and larger numbers of children and youth in each age group and, consequently, a much larger pool of youth driving enormous demand for higher education. Uttar Pradesh produces over 1.63 million graduates from 91 universities each year; Madhya Pradesh, over 765,000, the highest in the country despite spending on education at intermediate levels at 13.1% in UP and 12% in MP. The problem in these states is maintaining the "pipeline", with GER at times dipping due to scale issues, quality dilution, and overcrowding in some institutions.
- However, because of sheer numbers, massive numbers of students are graduating each year—10,000 to 20,000+ students or more per university in high-performing states like UP and Bihar. The advantage of a large youth pool translates into pressure to have high access to higher education but also risks unemployment if job creation does not keep pace with output. Many a time, this large pool of graduates migrate to different parts of the country for better or more opportunities, as the state isn't able to match the demand for jobs for both skilled and unskilled professionals.
- Northeast and Himalayan states like Arunachal, Meghalaya, Himachal, and Mizoram often exhibit a combination of two or more of these characteristics. The Himalayan and northeastern states have a young to mid-range age distribution, but they also have limitations in population and geography. The Himalayan and northeastern states have a high allocation of their GSDP to education, resulting in high inclusion and equity in remote areas like Arunachal Pradesh (19.3%), Meghalaya (18.6%), and Himachal Pradesh (18.4%). Though they have a limited number of universities, ranging from 3 to 38, and lower graduate output, ranging from 6,000 to 124,000, the Gross Enrolment Rate (GER) can still be high in states like Himachal and Uttarakhand, at 40-43%.

India's higher education sector showcases glaring inequalities, where demographic dividends bring a boom in the numbers of graduates in the populous states of the North but also expose weaknesses, while the efficient states of the South hide underinvestment, and the distant states strive to achieve equity.

Youth hubs such as Uttar Pradesh, with 1.63 million students graduating every year from 91 universities, are investing heavily in the burgeoning population of the youth, with a median age of less than 25 years. In contrast, Bihar, with a massive allocation of over 30% of the state budget, does not do so out of benevolence but because of a desperate attempt to avert welfare pressures from the aging population of other states. With a falling GER due to overcrowding, the states are still churning out a huge number of

students, approximately 10,000 to 20,000 per university, only to see unemployment and migration carry off the talented youth. Does quantity trump quality?

How different are the states of the South, where Kerala, with a median age of over 35 years and a GER of over 40%, shows efficient output, while Tamil Nadu, with a paltry allocation of merely 9-9.6% of GSDP, still manages to produce 983,000 students per annum, thanks to synergies with the information technology and manufacturing sectors. However, this model avoids the problem of overcrowding in the North, creating a bifurcated education system, which still fails to address the glaring inequalities in educational standards and employment opportunities between the North and the South.

Northeastern states such as Arunachal Pradesh, with education accounting for 19.3% of GSDP, are investing in achieving equity in education despite geographic isolation, showing high GER but modest output of approximately 6,000 to 124,000 students per university. The question, therefore, remains: what happens to the demographic dividend of India's youth bulge, which could turn into a ticking time bomb, calling for a shift in policy paradigms?

Overall Unemployment: Are We Producing Enough Jobs?

India finds itself at a critical juncture in its quest to achieve the status of a developed economy. With one of the world's biggest and youngest labour forces, comprising more than 560 million people aged 15 and above actively in the labour force in early 2026, India has achieved tremendous success in creating jobs for its population. According to official statistics released by the Ministry of Statistics and Programme Implementation (MoSPI) in its Periodic Labour Force Survey, India has created 16.83 crore jobs between 2017–18 and 2023–24, taking its total workforce to 64.33 crore. More recent statistics released in the Economic Survey 2025-26 reveal a continued rise in the number of jobs created, with 8.7 lakh jobs created in the second quarter of FY26, i.e., July-September 2025, taking the workforce to 56.2 crore.

Yet, underlying all these statistics is one burning question: are we creating enough jobs to meet the ambitions of millions entering the job market each year? India's unemployment rate, based on the current weekly status for persons 15+ years old, was 5.0% in January 2026—a slight increase over 4.8% in December 2025 yet one of the lowest in recent times. The unemployment rate in rural India stabilizes at 4.2%, while in urban India it's at a much higher 7%. The Labor Force Participation Rate (LFPR) at 55.9% and the Worker Population Ratio (WPR) at 53.1% indicate high workforce participation rates, especially for women.

However, if one examines the youth and graduate groups targeted by our investment in higher education, the situation becomes alarming. The youth unemployment rate (15 to 29 years old) stabilizes at 10 to 14%, nearly three times higher than the overall unemployment rate. For graduates, the unemployment rate reaches 13%, or even higher according to some studies, for fresh entrants into the job market. The employability rate reaches only 54 to 55%, according to skills reports. The paradox here is that the more educated you are, the higher your chances of unemployment, with your skills failing to meet job requirements in a rapidly changing economy with mostly informal and low-productivity jobs available.

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