

Liquor in the locker! A relook at the alcohol policy in India

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When the Indian government lifted the Covid-related ban on sales of alcohol on May 4th, people thronged to liquor stores like devotees outside Tirumala Balaji temple waiting for darshan. As the states made an exigent move to rescue their depleting tax-coffers, consumers too, fearing future bans, flocked to restore their alcohol supplies, tossing away all social distancing norms enroute. The behavior of both citizens and the state surrounding the ban and the lift, has swung the spotlight back on the contours of India's alcohol policy.

Central to a good policy are the social and the economic goals of the state. The social angle is a tussle between individual liberty as exemplified¹ by “the right to eat and drink what one wishes, as a right to life itself and part of the liberty enjoyed by all,” and good social outcomes; poor social outcomes like poverty, unemployment, and domestic violence are known to co-exist with alcohol dependence. Not surprisingly, India has toyed with prohibition since independence, Mahatma Gandhi and rural women being its fierce supporters. While prohibition as a policy promises better social outcomes, it no doubt hurts individual liberty and compromises the economic goal of improving tax-revenues via alcohol sales.

In India, individual states get to make the alcohol policy and keep the tax-proceeds for themselves. It makes sense why many states decided against prohibition. According to a RBI study of state budgets for 2019-20, excise duty on alcohol ranks among top three contributors to, and accounts for around 10-15 per cent of own tax revenue for a majority of Indian states. Under the lock-down policy, liquor was categorized as non-essential with sales banned for 42 days. With state revenues drying up, the allure of recovery through alcohol sales was too much to give up. When the ban was lifted, while several communities and women groups condemned the lift,² many rejoiced including state ex-chequers. One thing became clearer, lockdown or not: an alcohol policy that strikes a balance between individual liberty and social good is difficult to resolve.

Solving this problem is hard, but we can start by discussing non-solutions first, prohibition being the foremost. A complete ban can prove fatal for addicts, as alcohol **unlike several** other drugs cannot be quit cold-turkey. For habitual and casual consumers too prohibition can backfire, as they seek to increase efficiency of consumption by shifting demand to liquors with high alcohol content. If the evidence during lockdown is anything to go by, the lockdown ban saw **some** desperate folks experiment with extracting alcohols of higher proof from hand sanitizers to satisfy their cravings³. Prohibition can have another dangerous side-effect, of breeding illegitimate manufacturers who can sell liquor without any monitoring, quality control, or certification, further jeopardising public health. If legitimization trumps prohibition, then should it be coupled with increased taxes?

Raising taxes on alcohol does little to dissuade consumption **as alcohol is relatively price inelastic**; a 2012 WHO study on alcohol consumption in India confirms the same. Even worse, the study

¹ As adjudged by Justice Singh in the recent case in Bihar: <https://scroll.in/article/817985/patna-high-court-upholds-individual-liberty-and-the-right-to-eat-and-drink-what-one-wishes>

² <https://scroll.in/article/961208/covid-19-lockdown-will-indias-move-to-ease-alcohol-restrictions-fuel-domestic-abuse>

³ This is a classic behavior also called the ‘iron law of prohibition’ or the Alchian-Allen Effect. The Alchian-Allen effect implies that when there are severe restrictions people demand high potency (or alcohol content in this case) to justify the high costs of procurement.

finds that an increase in tax can induce habitual drinkers to spend an increasing proportion of their income on alcohol, many times ignoring food and other essentials.

If prohibition is undesirable, taxes seem even less so. In Covid times a harm minimization approach is better than a puritanical one. For example e-queues, home deliveries, and deaddiction support are good short-term solutions. In the long run though, we ought to come up with policies that nudge individuals and the states to make better choices. For individuals an effective nudge may be removal of all volume related discounts on alcohol purchase like buy x and get y free or lower price per volume at higher quantities. The policy introduces some friction in alcohol purchase and can help hinder consumption. People may still drink in large quantities, but not because they can save a few bucks. A second policy idea, particularly for rural consumers could be to allocate a part of the allowance (Direct Benefit Transfers) to essential rations, so as to reduce the fungibility of money, which may otherwise be diverted towards alcohol. Along with these, sustained support towards deaddiction programs helps off-board the willing.

While deaddiction efforts need funding and support, the initiation into alcohol and continuation need the opposite. Alcohol is genetically programmed with a high net promoter score, surrogate advertising or sales promotions are something this industry can do without. Coming to the states' unhealthy obsession with alcohol in search of tax revenues, this dependence is not hard to break, but will need the centre to intervene. A centralized policy on alcohol sales, promotion, and advertising, akin to tobacco policy in India, is very much in order. Creation of such a policy finds scientific support in a well-publicized 2010 Lancet study, which establishes that alcohol is the most harmful drug in terms of social (not individual) harm scoring above narcotics like heroin and cocaine. Apart from a centralized policy, the centre should also look to set limits for each state's share of tax revenue from sin goods. Such limits will not only help states look beyond alcohol, but also reduce the temptation to seek revenues from other sin goods such as gambling.

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