

CHAPTER 5

Policy Approach Options

Introduction

The previous chapter derived the estimate of social costs at their relatively lower limit, by including the essentially known and estimatable costs. The cross check of this estimate with the allocations made by the states for social services, family welfare and public health which should account towards the empathy of the states for the victims of alcohol abuse (the negative stake holders) were found to fall grossly short of the requirement.

However, it was derived that the present policy of controlled availability of liquor followed by most states in India using quality controls and price mechanism as the controlling tool for accessibility to liquor as well as earning of state revenue, produced a balance in favour of the positive stakes perceived by the producers, intermediaries, consumers and the government vis-à-vis the negative stake-holders i.e. the government for its social costs.

This, still, did not take into account the cost incurred by the near and dear ones of the victims of alcohol abuse – either the drinker himself or the victims of his deviant behaviour like relatives / kin of people injured or killed in accidents, violence or irrational behaviour. Effects on the spouse, children, parents of such persons are particularly relevant.

In our case, the foundation of neglecting the sufferers of alcohol abuse appears to have been laid during the framing of Article 47 of the Constitution. Despite the moral fervour which the subject had gathered due to the preaching of Mahatma Gandhi as well as household experience, the central government considered prudent to let go of the subject from its control and leave it to the

states – an inexplicable happening; unless, generically, as put by Dolly Arora⁵², it was a case of 'Policy Evasion' and 'Symbolic Policy' at the central government level. It, therefore, leaves an impression that though the ills of liquor consumption were well perceived by the Central Government, the political and moral courage to prevent its propagation by enacting a national statute was lacking, either to avoid alienating some sections of the society or some states / provinces, or with the ulterior motive of a populist stance. Even if total prohibition was not considered a viable option, the guidelines of regulation at the state level could have been formalised and standardised at the national level, which again, was not done.

In fact, this is completely opposite of what had happened in USA when the issue of prohibition was being debated. In what he calls a '*Policy Punctuation*' in a '*punctuated equilibrium model*' of policy formulation, the author⁵³ has explained how the issue of prohibition, until then a state subject of jurisdiction, was swiftly moved centre-stage at the federal level due to the national crisis and build up to war by :-

- (i) Increasing public attention to the liquor issue;
- (ii) Shifting focus from one set of underlying views on the issue to another;
- (iii) Increasing expectations for policy success by highlighting similar prohibition successes at both the state level and abroad;
- (iv) **Shifting the institutional venue for alcohol policymaking from the states to the national government;** and

⁵² Arora D., "Public Policy Analysis : Addressing the Contextual Challenges", *Indian Social Science Review*, 4, 1 (2002)

⁵³ *Policy Studies Journal*, August 2007

(v) Shortening the time horizons for in-depth debate over various policy options in favour of ready-made solutions, such as prohibition.

Secondly, it was proven by history, that the foundational aspect of cascade, tipping-point, and critical-mass models of political behavior depends upon a certain threshold level of collective behavior at which individual activity becomes self-sustaining based on perceived chances of ultimate individual benefit. In the case of USA, the shift of institutional venues for consideration of prohibition as a national policy option was solidified in 1913 due to the momentum gained by the Prohibition sentiment, which had snowballed into a quasi-national movement transcending all state borders and rightly justified the opportunism of the federal government in seizing it as a national issue and policy option which would surely gain success. In our case, too, the agitations which erupted in various states as brought out in Chapter 3, were mass movements (whether started by a group of women, religious institutions or NGOs) and had secured their purposes in every case.

The same tipping point and critical mass models reversed political stances when momentum was gathered by pro-alcohol lobbies by successful mobilisation of support in subsequent time frames in USA as well as in the states of India.

What is intriguing in the case of India is the opportunistic stands taken by the political parties towards prohibition. A case in point is that of the Congress party, which whole heartedly supported prohibition in Kerala where it was in the opposition; but at the same time opened up liquor vends in Haryana where it was in power. Morality seems to play an appeasing role towards the public when political parties want to get back in power, but the hard economic fact plays the practical role when parties are in power.

What should a government do to arrive at the best of both the requirements? While passive approaches such as spreading awareness about the ills of alcohol and using conciliatory techniques to wean people away from it are standard patterns of tackling the problem by most governments, a pro-active strategy needs to be evolved.

Situations of total prohibition and using price / taxation as a lever are the two options discussed for this purpose in the subsequent paragraphs.

Complete Prohibition

Restraining the consumption of alcohol to safeguard the interest of the society is a complex and complicated issue. Unless the state governments establish well-defined regulations; gain the complete co-operation of the enforcing authorities; ensure speedy disposal of cases; take tough action against offenders; and set-up a fool-proof control system to prevent smuggling and the emergence of illicit liquor businesses, it would be impossible to make prohibition a success.

The second aspect of theoretically absolute implementation of prohibition is the loss of revenue to the state from the ever increasing demand of liquor. This has two further issues connected with it. One, similar revenue will need to be generated for development work from some other source without inviting the wrath of the common man for a government to survive; two, the common man will need to be shown that liquor is a dispensable commodity by diverting his urge to some other harmless commodity.

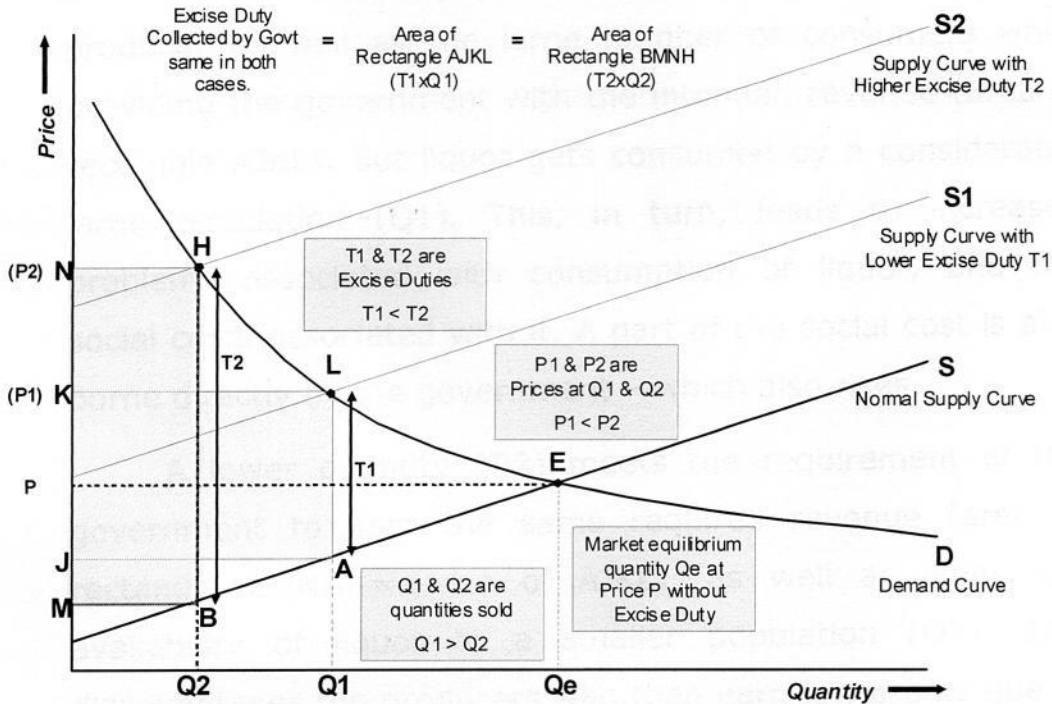
It involves a fundamental change in established perception which is difficult to achieve by force or in a short period.

Using Price / Tax as A Lever

As brought out in Chapter 4, the Government does intend to retain some control on the availability of liquor (quality, quantity, rate, availability base) with the dual purpose of maximizing its positive gains of revenue and minimizing its negative stakes of social costs. Use of taxation and price control is one of the measures available with the government for this purpose.

A via media optimum is necessary. The via media approach itself creates an option dilemma, as explained through Fig. 1, depicting the price elasticities of supply and demand of liquor presented below :-

Fig. 5.1 : Government's Choice Options for Excise Duty



(Source : Author's Construction)

Simple analysis of the demand and supply curves superimposed with excise duty shown at Fig. 1 reveals that a particular target revenue income could be achieved by the

government at two points on the quantity axis, i.e. two distinct quantities of the item will render the same total earning for the government; one with a smaller excise duty but a larger volume of production and the other, a much lower quantity corresponding to a much higher rate of excise duty. This is also likely to generate a conflict of interests. On the one side is the large demand that exists from consumers of that item and the urge of the liquor producer to flood the market with large quantity of his product to ensure market share visibility in kind while earning high profits. On the other side is the ethical duty of the government to ensure well-being of the society by allowing less number of people to drink and cause social problems. It is then the take of the government to decide which position to adopt. The dilemma of decision is as follows :-

A higher quantity (Q1) meets the requirements of the producer as well as the large number of consumers while providing the government with the intended revenue (area of rectangle AJKL). But liquor gets consumed by a considerably large population (Q1). This, in turn, leads to increased problems associated with consumption of liquor, and the social costs associated with it. A part of the social cost is also borne directly by the government – which also rises.

A lower quantity (Q2) meets the requirement of the government to earn the same required revenue (area of rectangle BMNH = area of AJKL), as well as limits the availability of liquor to a smaller population (Q2). This disadvantages the producers who then earn low profits due to lower volume of sales. Also, since large sections of drinker population get excluded from the availability (Q1-Q2), there is a likelihood of illicit trade commencing. This again leads to social costs.

The Indian liquor industry argues that since the brewing of

dangerous illicit liquor is difficult to control, it would be advisable to make safe, organized sector liquor available at reasonable, affordable prices. By introducing differential taxes for hard and soft liquor (beer) the illicit liquor evil could be weeded out.

An interaction with some leading marketing agents⁵⁴, in the liquor industry gave good insight into the functioning of the industry in India. It was apparent that the CL segment of the industry can never meet the demand that exists in the lower class market, mainly from the rural areas, low income groups in cities and labour all over. Consequently, CL presents unlimited opportunity for the industry to produce at low cost and yet earn large profits. The government too is able to impose ridiculously high taxes and allow large profit margins to the brewers because the supply is always fully consumed irrespective of the price. However, the escalation of price in this segment hits the pockets of the lowest grades of income like daily wage earners who then resort to illicit liquor which leads to problems. Accepting some degree of illicit / spurious liquor cases, high pricing of liquor is a viable option for the government to earn more revenue because the demand remains fairly inelastic vis-à-vis price.

The IMFL industry's endeavour has always been to weed out low grade CL and replace it with purportedly high quality, safe and scientifically produced IMFL to avoid spurious liquor cases (partly also due to the selfish motive of earning greater market share and profits). However, this can happen only if the IMFL is made available at very reasonable prices in an open market, which necessitates that duties and taxes on IMFL are reduced considerably

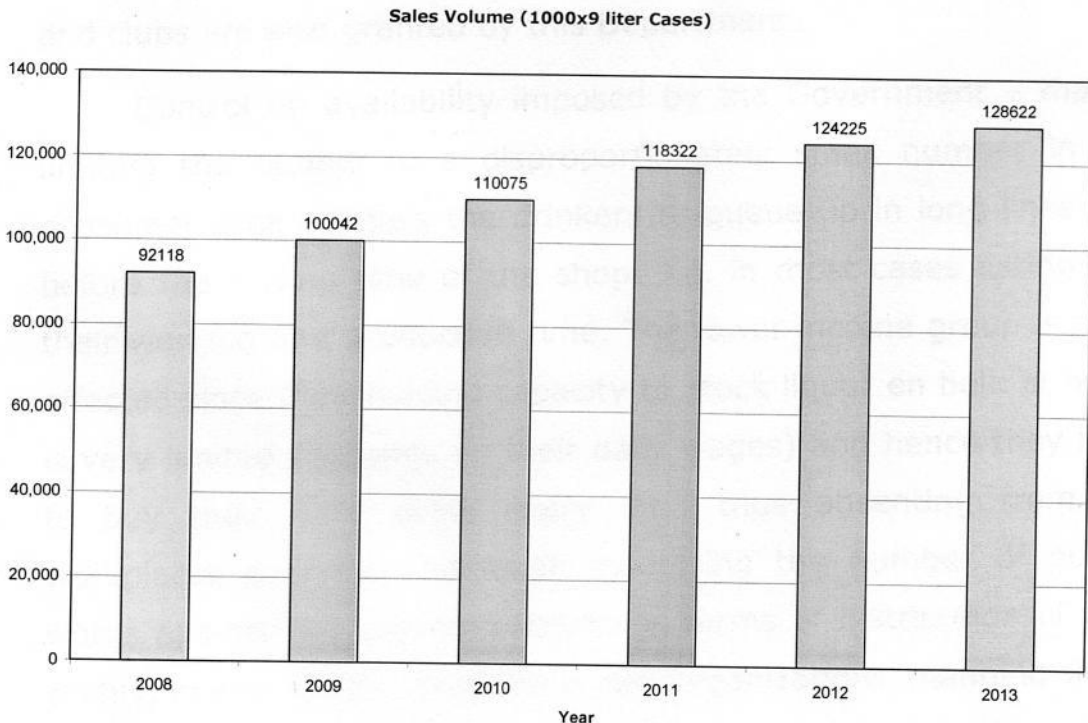
⁵⁴ Vaish Agencies (Corporate Office), 3/40 Hanuman Lane, Connaught Place, New Delhi-110001. The Agency is an intermediary between breweries and the Government Departments for the purpose of endorsement, acceptance and marketing of their products in India with several states including Delhi. Mr. Vaish was personally interviewed along with his partner in business, Mrs. Dhar on 25 and 26 Feb 2010 by the author.

by the government. This does not happen because the government is wrongly apprehensive of losing revenue on liquor.

This is a pointer to the feasibility of the government to actually operate at a 'high quantity – low tax' combination on the elasticity curve in the IMFL segment to enable a large number of CL drinkers to transgress into the IMFL segment and minimize CL consumption or restrict it only to the extremely poor. This experiment can be tried by the governments, however, with a sound backing of the market trends and elasticity models which replicate the actual sentiment to the nearest possible. Since the brewers and sellers are already doing such surveys (which are kept confidential) it should not be difficult for the government to source a study for obtaining the trends for future planning.

The IWSR Survey 2009 predicts India as the top country in whiskey market worldwide from 2008 to 2013 with the sales graph (thousands of 9 liter cases) showing the trend in **Fig. 2**.

Fig. 5.2 : Market Trend for Whiskey in India Over 2008-2013



(Source : IWSR Spirits Review Dec 2009 / January 2010)

Pricing and taxation of liquor should be done by the Government based on internal surveys to gain optimum outcomes.

Physical Control of Outlets

Different states have different policies of the sale model. The Excise Department handles the affairs of regulating the liquor business in each state. The prime job of Excise Department is to regulate import and supply of liquor, intoxicants and narcotics (for medicinal purposes), the statutory powers for which are discharged under the respective states' Excise Act / Prohibition Act(s) suitably modified for the state and in many cases, the Medicinal Preparations Acts. The Department grants licenses to distilleries / bottling plants for the wholesale supply of IMFL and beer in its jurisdiction, while retail liquor trade is mainly in the hands of the Government Undertakings for which a separate license is granted. Apart from this, in some states, some private entrepreneurs have also been granted licenses for retail trade of IMFL & beer. Besides, licenses for the consumption of liquor 'on-site' premises like hotels, restaurants and clubs are also granted by this Department.

Control on availability imposed by the Government – that of limiting the outlets to a disproportionately small number in the consumer area compels the drinkers to queue up in long lines well before the closing time of the shops i.e. in most cases eating into their working and productive time. The lower income group is most affected since their holding capacity to stock liquor en bulk at home is very limited (depends on their daily wages) and hence they have to buy their daily drink every day, thus absenting from the workplaces everyday. Although increasing the number of outlets works against the present retailers in terms of distribution of their profits, many states have state run organizations manning liquor shops for sale. Such shops could be increased in numbers. (This

takes analogy from the Swedish experiment of 'Gothenburg System' model⁵⁵ followed by the USA in some states, which had eliminated the private profit portion of the liquor price and made the government come into the business of selling liquor). The system is also called a 'Dispensary System' of 'disinterested management' since it is run by the government whose representatives are not expected to promote the sales by unscrupulous means like private entrepreneurs. This achieves the dual aim of low cost, wide availability and no illicit methods. The increase in number of such outlets would be beneficial in securing un-absented attendance of lower employees in workplaces, thus reducing the social cost of unproductivity.

However, it was the apprehension of many customers interviewed by the author that even the employees of the licensed government outlets seek fringe benefits on the price of their wares when demand is high and impatience on the part of the customers is manipulatable. Some extra amount under the table often secures a quart bottle for an obliging customer when it is declared 'out of stock' for the non-obliging one. Society needs to address such loopholes in the system by itself through collective representation and immediate visible action.

No system is fool proof. Perhaps, therefore, it is better to attach the benefits as well as the penalties of a particular commodity with its sale or other measureable parameter. The concept of attaching the emission quantities with credits or penalties in the atmospheric carbon case is applicable to the liquor

⁵⁵ The "Gothenburg system" of disinterested management emerged as a viable alternative to prohibition, threatening to divide the temperance movement between radical proponents of prohibition and more pragmatic advocates of adopting a modified Gothenburg system (Hamm, 1995). This arrangement, pioneered in Sweden, was a municipality-based initiative to curb the perceived evils of over-indulgence by removing from the liquor trade the private-profit element, which provided an incentive to increase alcohol sales. Retail outlets were placed in the hands of a local trust of reputable citizens who directed all liquor profits into a public fund to promote the general welfare (Kiaer, 1899; Thompson, 1935; von Heidenstam, 1904; Wieselgren, 1907).

industry as well. Since the industry impels a large amount of ill-effect and ill-being with every measure of its promotion into the society, it must pay for its vitiating of the social the environment, just as firms pay for vitiating the atmospheric environment. This gives rise to the applicability of the 'polluters-pay concept'.

'Polluters Pay Concept'

This envisages looking at the liquor industry as a 'polluter' (as carbon emitting industries are viewed in carbon credit concept) of the social environment due to the ills caused by abuse of the addictive substances that the industry produces. In order that the industry pays for its social pollution, the following approach⁵⁶ is recommended.

High Taxation / Excise. A method of proportionate taxes and excise duties should be applied so that the rates of these taxes are corresponding to the alcohol content in the products (as a penalty for introducing quick intoxication). A specified minimum share of the earnings by the government from such duties be earmarked every fiscal exclusively for measures to alleviate the sufferings of the victims of deviant behaviour of alcoholics. The industry was skeptical about the efficacy of the system since accountability of the government was suspect.

Industry Corpus. Each liquor producing firm should contribute a sum of money proportionate to its market share to an 'Industry Corpus' which could be managed by the appointees of the industry, but remain accountable to the government. This corpus should be employed in tangible assets for the treatment of alcohol abuse victims and indirect victims; and should include ex gratia

⁵⁶ As debated with heads of some leading breweries by the author during the BevIndia-2010 Conference on 24 Jan 2010 at Delhi.

financial grants to accident victims. The idea was mooted before the liquor industrialists, but it met with vehement opposition from some majors, who questioned as to why other industries such as the automobile industry which leads to deaths in accidents should also not be compelled to set up such corpuses. It was explained that the case of liquor cannot be equated with that of a car which kills by accident. This is because the car, by itself cannot cause such harm, unless it is driven by some person who has lost control for any reason. Liquor has been an established cause of loss of control over the mind and works with an addictive and regressive process, many times without the consumer realizing this effect. It, thus virtually deceives the consumer, who appears to retain confidence that he / she is in control until the mishap actually happens. Thus, it is the introduction of this substance – liquor – that plays the role of the catalytic causal in such cases, and needs to be treated differently. The proposal, was considered workable from the angle of Corporate Social Responsibility (CSR) of the liquor brewing companies, but would need modalities to be defined very well.

Contributory Fines. This scheme envisages the imposition of a 'contributory fine' on the liquor industry for every case of offence for which the cause is alcohol / liquor. The proposal takes root in the fact that in most cases in the earlier days, an offence committed under the influence of alcohol would be condoned or viewed with much less degree of culpability than the same offence committed when not under the influence of alcohol; seemingly, under the pretext of behaviour without conscious intent. This should no longer hold ground. Liquor's known effect of degenerating the decision making process and its consequences should, in fact be doubly paid for by the offender, both for having induced oneself into a state that prompted the offence and secondly for the offence itself. Often, tipplers themselves brag that a tot or two bring the

real feelings inside to the forefront. An offence committed under the influence of liquor, therefore, must be construed as the manifest of the latent intent. An accident caused due to drunk driving should invite the making up of the cost of damages to the state property as well as private property, life and limb by the offender in the first place as already exists in law.

In addition, it should entail the deposit of an equal amount by the liquor industry to the government treasury on every such occurrence. This is the contributory fine from the industry. Suitable procedure to ensure such levy and deposit with minimum human interference will need to be devised, lest it lead to corrupt practices. Perhaps, with the introduction of the Universal Identity in India, and e-Governance picking up, such schemes could come into force.

While the industry representatives acknowledge their CSR, it is a general complaint that the government, which already charges very high duties and taxes on liquor, does little by way of social responsibility towards the victims of alcohol abuse from these earnings. This point has been tested and proved in the previous chapter, already.

Active Civil Society

Collective action by the public often succeeds where governments fail, if the cause is justified and the society is determined. While the government attempts various measures to retain control over the two sides of the alcohol story – earnings on the one side and costs on the other – the civil society itself can do a lot for the cause. In case the felt need of stricter control over availability and consumption of alcohol is severe, like-minded people have often got together to voice their concerns. This can be attempted in other contexts too. Inclusion of like minded eminent personalities in the group membership is likely to help raise the

issue with the people who matter. Various measures that the civil society groups can undertake are as follows :-

Awareness Campaigns. Despite the charter of duties of the Prohibition Department of every state government including the conduct of awareness campaigns to educate the public on the effects of alcohol, safe drinking habits, and so on, very cursory actions are generally taken by the ill staffed and ill trained departments of the government. Non-governmental Organisations (NGOs) can ideally fill this gap. Pro-active campaigns should be organized against addiction or ills of excessive drinking. Targetting college students and young working professionals to orientate their views towards liquor, targeting the rural class and low income groups through street shows and documentaries highlighting the ills of alcohol and spreading awareness to the gram panchayats / eminent local bodies in rural areas must be taken up as objectives of such campaigns.

Social Mobilisation. Where things are seen to be going out of hand (too many cases of alcohol induced violence, petty offences, drunk driving) local groups of citizens must attempt to draw the attention of the enforcement agencies to the problem and persuade it to its logical end. If the response of the enforcement agencies is found below mark, social mobilisation should be attempted.

Campaign to De-glorify Liquor. Campaigns against glorification of liquor in any form must be organized; e.g. Virile living depicted through surrogate advertisements of liquor brands, not allowing liquor consumption to be shown as a sign of masochism or wealth in movies, television programmes and mass media, etc. The anti-smoking

campaign has met with considerable success. There is no reason why an earnestly driven campaign against liquor should not succeed.

Summary

This chapter has dwelled on the policy dilemma and options for the government in achieving the optimum out of the inevitable liquor industry.

In principle it is accepted that complete prohibition is neither possible nor warranted, since neither the ability to enforce prohibition exists with the governments nor is there a capacity to forgo the revenue earnings from liquor industry and earn an equivalent revenue through some other means. A via media is, therefore, recommended.

However, in order that the government achieves the optimum benefit, the chapter flags the necessity of pragmatic analysis of the liquor market, price elasticities of demand and supply with projections for the future and policies based on free availability covered by the 'polluters pay' principle applied to the liquor industry to minimize social costs and compensate for those which cannot be eliminated.

Other concurrent approaches of spreading awareness will need to continue.