

# **Prohibition! A Constitutional Promise And The Reality**

## **A study on Indian Made Foreign Liquor Markets in Kerala**

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### **Abstract**

Kerala has become very materialistic. Rapid changes have taken place in the material culture, but there has been no change at all in the State's non-material culture. Kerala society is caught in a cultural lag. The alcohol consumption rate in the state has increased manifold and it is today one of the highest in the country. The per capita consumption of alcohol in the state stands at 8.3 litres, according to the Alcohol and Drug Information Centre (ADIC), India. Twenty per cent of the population consumes alcohol. The average age of first consumption of liquor came down below 13yrs.

The review of literature had revealed that most of the studies related to alcohol markets are confined to the study of the influence of rate of alcohol consumption due to changes in price at various levels, pattern of drinking levels, consequence of drinking, gender differences in drinking habits. Many studies also attempted to analyse pattern of preference between different alcohol types, influence of age on trends in alcohol use and the like.

The exponential growth in the per capita consumption of alcohol among the Kerala population had motivated the researcher to study the pattern of growth during various periods. So it has become a necessity to study the demand trend for Indian Made Foreign Liquor (IMFL) in Kerala. A close look at the past sales data over period of time can reveal the underlining socio-political situations that had contributed to the extra ordinary increase in the liquor consumption habits of Keralite's. An attempt to extrapolate the given trend to the future can also help to forecast the inevitable danger (if any) threatening to disturb the socio-cultural fabric of the conservative Kerala polity.

An attempt was also made to study the vested interested (if any) of the political and Government leadership in floating the proclaimed prohibition policy of the state mentioned in Article 47 of the directive principles of state policy of the Indian Constitution.

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Prohibition is incorporated in the Constitution of India among the directive principles of state policy. Article 47 says: "The state shall regard the raising of the level of nutrition and standard of living of its people as among its primary duties and in particular, the state shall endeavour to bring about prohibition of the use except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health".

During the pre-independence period, Mahatma Gandhi himself issued several strong statements against the sale and consumption of alcohol. From the early 1950's the Government of India has periodically sought to persuade the State Governments to adopt a uniform prohibition policy. Attempt to impose prohibition in various states have periodically been made, but later that move was lifted as the budgetary deficit and the extra cost of enforcing prohibition made the effort financially non-viable.

Alcohol as a major source of indirect tax revenue has always been the centre-point of the policy makers' thinking and little pain and consideration were given to look on to the social aspect and economic consequences. Alcohol policies especially those relating to production, consumption and taxation have varied widely across the states. Alcohol policy and legislation in India is based on political compulsions rather than the interests of public health. Part of the reason is that there has been little attempt to examine the economic and social burden generated by alcohol misuse to provide a sound guide for policy makers.

Studies show that around 15 to 20 per cent of Indians consume alcohol and, over the past twenty years, the number of drinkers has increased from one in 300 to one in 20. Of what is actually consumed, the intake of Indian Made Foreign Liquor (IMFL) is growing at the considerable rate of 15 per cent a year. Since last 10 years, the Indian liquor industry has evolved at every stage. The industry has changed from being seller's market to a buyer's market. Sociologically, the country has undergone series of changes. Lifestyles have changed drastically. Today, drinking in moderation is not looked upon as a social taboo. The Indian Made Foreign Liquor (IMFL) industry in India is estimated at nearly 84 million cases and is growing at 8 per cent per annum. Consumption is largely skewed towards whisky, which accounts for over 60 per cent of the market. Brandy accounts for 21 per cent, rum for 14 per cent and whites (Gin, Vodka and others) for 5 per cent.

### **Statement of the problem**

Kerala has become very materialistic. Increasingly, alien values replaced traditional ones and nuclear families took the place of a once-predominant joint family system. It is today a very individualistic society, caught in a state of imperfect modernization. Imperfect education and easy Gulf money had led to the creation of a society which has great expectations but not enough resources and other means to bring them to reality.

Rapid changes have taken place in the material culture, but there has been no change at all in the State's non-material culture. Kerala society is caught in a cultural lag. The alcohol consumption rate in the state has increased manifold and it is today one of the highest in the country. The per capita consumption of alcohol in the state stands at 8.3 litres, according to the Alcohol and Drug Information Centre (ADIC), India. Twenty per cent of the population consumes alcohol. The average age of first consumption of liquor came down - from 19yrs in 1986, to 17yrs in 1990 to 14 yrs in 1994 and stands at 13yrs in 2001.

The review of literature had revealed that most of the studies related to alcohol markets are confined to the study of the influence of rate of alcohol consumption due to changes in price at various levels, pattern of drinking levels, consequence of drinking and gender differences in drinking habits. Many studies also attempted to analyse pattern of preference between different alcohol types, influence of age on trends in alcohol use and the like.

The exponential growth in the per capita consumption of alcohol among the Kerala population had motivated the researcher to study the pattern of growth during various periods. So it has become a necessity to study the demand trend for Indian Made Foreign Liquor (IMFL) in Kerala. A close look at the past sales data over period of time can reveal the underlining socio-political situations that had contributed to the extra ordinary increase in the liquor consumption habits of Keralite's. An attempt to extrapolate the given trend to the future can also help to forecast the inevitable danger (if any) threatening to disturb the socio-cultural fabric of the conservative Kerala polity.

An attempt was also made to study the vested interested (if any) of the political and Government leadership in floating the proclaimed prohibition policy of the state mentioned in Article 47 of the directive principles of state policy of the Indian Constitution.

### **Research Objectives**

#### **Primary Objective**

The major objective of the present study is to trace the sales trend for Indian Made Foreign Liquor (IMFL) in Kerala market which is the largest IMFL markets in India in terms of per capita consumption.

#### **Secondary Objectives**

The other objectives of the study can be stated as

- To forecast the possible sales of Indian made foreign liquor (IMFL) in Kerala market for the coming years till 2010.

- To forecast the possible revenue for the state Exchequer from the sale of Indian made foreign liquor (IMFL) for the next few years.
- To analyse whether the two political groups in Kerala which alternately rule the state had any way influence the sales of Indian made foreign liquor (IMFL) or excise revenue collections of the government as they have two different proclaimed policies about this sector.
- To review the performance of the state government in upholding the constitutional obligation of implementing prohibition policy as laid down in Article 47 of the directive principles of state policy of the Indian Constitution.

### **Research Methodology**

The present descriptive research is planned more or less as a desk research where the researcher has to depend mostly on secondary data. The researcher collected the sales details of IMFL and Beer for a twenty year period from 1984 onwards from Kerala State Beverages Corporation (KSBC). The trend projection method using method of least square was used for forecasting the sales and revenue figures. The past trend was analyzed using the percentage variation method.

Analysis of the combined sales volume trend was attempted first. In Kerala there exist two political combinations. An attempt was made to assess the performance of these political formulations by analysing the gross sales revenue trend under different ministers ruled Kerala during the study period. So a separate trend analysis was attempted by classifying the sales revenues under each government and checking whether the actual sales revenue match the trend values predicted for the period.

The manufacturing and sales of liquor products invites sales tax and excise duty. From this, Government of Kerala receives considerable revenue. In fact major revenue source for the industrially backward, fund scarce state is from liquor sales. Hence this study also tried to study the trend for government's income from this source.

### **Analysis of data and discussion**

This descriptive study was designed to trace the alcohol sales trend in Kerala and to model it. It also attempted to forecast the sales volume and sales revenue with time series analysis using the method of least squares.

The analysis of sales volume trend revealed that alcohol market in Kerala shows a long term upward trend as shown in appendix table 1. The present study also validated the previous research findings in the industry that high tax regime is not an effective deterrent for the alcohol drinking propensity of people. The analysis also proved that even if a very high tax burden reduces the sale of liquor, that influence affects the industry sales only for the first few months of that financial year alone.

An important finding of this study suggested that IMFL sales volume in Kerala is not affected by price increase. It has shown an increasing trend even when the excise duty on the product was increased at a stroke by 200%.

It is also essential to report that imposing higher tax burden influence people to substitute the low alcohol content beverage beer with IMFL which has a higher alcohol content and this is a socially undesirable trend. The annual sales growth figures reported in Appendix table 2 indicate that Kerala liquor market is a very high growth market and hence there is every possibility of higher investment into this sector.

Time series analysis using the Method of Least Square resulted in fitting a trend equation for the sales volume of Kerala liquor market in the form of  $Q = 33.2 + 11.4 T$

This study found that the total sales of liquor in Kerala market will reach 200 lakh cases by 2009 as shown in appendix table 3.

The review of sales revenue of liquor industry in Kerala and the tax revenue of the state government revealed that the liberal excise policies of the UDF government in 1991 had actually

started the buoyant excise revenue collection in the state (Table – 4). The study established sales revenue followed a parabolic trend during 1994-99 and the trend equation for the sales revenue of liquor during the period was fitted using a second degree trend equation. The trend curve fitted for the period was  $S = 145.996 + 4.517 T + 14.96 T^2$

This study forecasts the Gross turnover of the Kerala liquor industry to cross Rs.3000 crores by the year 2007 (Table – 5). The time series analysis on revenue collections to the State Government suggested that the trend equation for the purpose is

$$R = 70.84 + 152.085 T$$

The study also predicted that by 2010, the gross tax revenue collection from IMFL manufacture and sales will be Rs. 2656 crores. Issue analysis discussed earlier in this study found that prohibition is a hypothetical call in the prevailing economic and social conditions of the state. The trend equation for forecasting sales turnover of liquor industry beyond 2004 is predicted using the linear trend equation  $S = 930.97 + 234.55 T$

A critical analysis of performance of UDF and LDF in their commitment to uphold the constitutional obligation of implementing prohibition was made in table - 6, the study found that both the political formulations were not committed to the cause of the welfare of the society or constitution. Both the group were doing only lip service but actually trying to make as much revenue as possible from the industry so that the revenue thus generated can be used for paying salaries if the large Government employees.

### **Suggestions**

In the aforesaid ideological, socio-economic and reality backdrop and analysis in the subsequent chapters, the following general observations are made. Though the play of market forces in a free trade regime leads to optimization of resources, this may not be the best recipe for alcoholic products because of its very negative nature. Moreover after reaching saturation level in consumption in the developed countries, there is a very real danger of the surplus production in these countries being “marketed” and dumped into developing countries. The Union and the State Governments should, therefore, take necessary measures to protect citizens from this onslaught.

Scientific studies have proved the efficacy of the physical controls in controlling consumption, in spite of their known negative side effects (illicit distillation, trafficking etc). Further, to minimize such side effects, control regime should be reasonable and transparent and give least discretion to the operators.

The tax element in the price structure will have to be high so long as the cost price of liquor continues to be low. In the long run, with the increase in the cost price, due to increased demand of alcohol for industrial and fuel use, the element of taxes can be brought down.

A Model Excise Policy should ensure that the objectives of minimization of consumption and maximization of revenue are achieved without putting unreasonable restrictions on the individual's freedom of choice and unreasonably high taxation. Raising rates beyond the threshold, instead of generating higher revenue and discouraging consumption, would lead to evasion of taxes, smuggling and illicit distillation. Efforts should be to rationalize tax and policy regimes so as to plug leakages and realize full revenue due to the State for genuine and responsible drinking.

**APPENDIX  
TABLE - 1**

Table showing sales volume and revenue of liquor in Kerala market				
YEAR	IMFL	BEER	TOTAL QUANTITY	GROSS SALES
	(CASES IN LAKHS)		(Cases in Lakhs)	(figures in Rs crores)
1984 - 85	9.34	5.05	14.39	55.46
1985 - 86	9.98	3.63	13.61	67.12
1986 - 87	12.09	4.78	16.87	81.54
1987 - 88	12.56	5.16	17.72	81.42
1988 - 89	9.99	3.07	13.06	82.42
1989 - 90	14.66	5.24	19.9	117.41
1990 - 91	15.43	9.53	24.96	142.33
1991 - 92	16.36	13.09	29.45	124.67
1992 - 93	18.22	14.53	32.75	208.02
1993 - 94	23.79	19.03	42.82	287.15
1994 - 95	24.61	26.79	51.4	353.91
1995 - 96	32.52	32.15	64.67	477.6
1996 - 97	32.42	30.85	63.27	762.93
1997 - 98	57.25	27.28	84.53	1000.83
1998 - 99	62.92	25.17	88.09	1112.23
1999 - 00	64.34	25.17	89.51	1184.65
2000 - 01	72.19	28.93	101.12	1337.58
2001 - 02	92.08	28.66	120.74	1694.82
2002 - 03	97.08	33.86	130.94	<b>1847.4</b>
<b>2003 - 04</b>	<b>106</b>	<b>39</b>	<b>145</b>	<b>2071</b>

**TABLE - 2**

Table showing annual percentage change in the volume of sales in Kerala liquor market

Year	Imfl	Beer	Total Quantity	%Change	
	(Cases In Lakhs)		(Cases In Lakhs)		
1984 - 85	9.34	5.05	14.39		
1985 - 86	9.98	3.63	13.61	-0.78	-5%
1986 - 87	12.09	4.78	16.87	3.26	24%
1987 - 88	12.56	5.16	17.72	0.85	5%
1988 - 89	9.99	3.07	13.06	-4.66	-26%
1989 - 90	14.66	5.24	19.9	6.84	52%
1990 - 91	15.43	9.53	24.96	5.06	25%
1991 - 92	16.36	13.09	29.45	4.49	18%
1992 - 93	18.22	14.53	32.75	3.3	11%
1993 - 94	23.79	19.03	42.82	10.07	31%
1994 - 95	24.61	26.79	51.4	8.58	20%
1995 - 96	32.52	32.15	64.67	13.27	26%
1996 - 97	32.42	30.85	63.27	-1.4	-2%
1997 - 98	57.25	27.28	84.53	21.26	34%
1998 - 99	62.92	25.17	88.09	3.56	4%
1999 - 00	64.34	25.17	89.51	1.42	2%
2000 - 01	72.19	28.93	101.12	11.61	13%
2001 - 02	92.08	28.66	120.74	19.62	19%
2002 - 03	97.08	33.86	130.94	10.2	8%

2003 - 04	106	39	145	14.06	11%
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**TABLE 3**

Table showing trend values of sales volume of Kerala liquor market

Year	Trend Values
2004-05	154.64
2005-06	165.68
2006-07	176.72
2007-08	187.76
2008-09	198.8
2009-10	209.84
2010-11	220.88
2011-12	231.92
2012-13	242.96
2013-14	254

**TABLE -4**

Table Showing Contribution To State Exchequer

Year	Amount Contributed (Figures In Crores)
1984 - 85	25.63
1985 - 86	30.86
1986 - 87	40.06
1987 - 88	40.74
1988 - 89	57.35
1989 - 90	78.33
1990 - 91	92.07
1991 - 92	112.59
1992 - 93	133
1993 - 94	179.72
1994 - 95	215.58
1995 - 96	315.51
1996 - 97	611.19
1997 - 98	753.48
1998 - 99	847.56
1999 - 00	903.56
2000 - 01	1025.93
2001 - 02	1310.17
2002 - 03	1468.1
2003 - 04	1622

*Source :- Secondary data*

**TABLE -5**  
**Table Showing Projected Gross Sales Revenue**

YEAR	PROJECTED GROSS SALES IN CRORES (Rs)
2003-04	2102.989
2004-05	2337.74
2005-06	2572.491
2006-07	2807.242
2007-08	3041.993

**TABLE -6**  
**Table Showing Gross Sales Trend Of Liquor Market In Kerala**  
**Under Different Governments**

YEAR	GROSS SALES (figures in Rs crores)	TREND VALUES
<b>1982 - 1987 UDF MINISTRY</b>		
1984 - 85	55.46	
1985 - 86	67.12	
1986 - 87	81.54	
<b>1987 - 1991 LDF MINISTRY</b>		
1987 - 88	81.42	94.12
1988 - 89	82.42	107.16
1989 - 90	117.41	120.2
1990 - 91	142.33	133.24
<b>1991 - 1996 UDF MINISTRY</b>		
1991 - 92	124.67	180.911
1992 - 93	208.02	212.976
1993 - 94	287.15	245.041
1994 - 95	353.91	277.106
1995 - 96	477.6	309.171
<b>1996 - 2001 LDF MINISTRY</b>		
1996 - 97	762.93	579.95
1997 - 98	1000.83	699.27
1998 - 99	1112.23	828.35
1999 - 00	1184.65	967.2
2000 - 01	1337.58	1115.8
<b>2001 - 2004 UDF MINISTRY</b>		
2001 - 02	1694.82	1375.13
2002 - 03	1847.4	1404
2003 - 04	2071	1403.03

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