

**EXECUTIVE SUMMARY OF MINOR RESEARCH PROJECT**

**The Link between Alcohol Affordability and Consumption-A Study with  
Reference to Kottayam District of Kerala State**

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**By**

**Alan Zacharia**

Assistant Professor

Department of Economics

St. Thomas College, Pala

Kottayam, PIN - 686574

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## **The Link between Alcohol Affordability and Consumption-A Study with Reference to Kottayam District of Kerala**

### **EXECUTIVE SUMMARY**

Alcohol consumption has emerged as one of the major social problem confronting the state of Kerala which, otherwise, has a lot of positive aspects viz. better human development, high literacy rates etc. There has been continuous emphasis by the media, social and religious organizations, and international organizations like W.H.O. on the matter of increasing alcoholism in Kerala. There was popular demand across the state for ban on alcohol in Kerala and the government of Kerala had initiated a step in this direction in the year 2015 when it took the decision to close down the bar hotels selling Foreign Liquor as part of the new liquor policy. The government also planned to close down the outlets of the Kerala State Beverages Corporation and the consumer fed, step by step, effecting a complete ban within the next ten years. However, the period after the closure of bars witnessed increased consumption and number of cases of banned drugs and this has prompted the authorities to have a rethinking and the present government has gone back on the previous government's decision of prohibition by step by step. In this context the present study on alcohol consumption in Kerala in relation to its affordability assumes great significance.

A major point of view advocated by the social scientists and researchers is that increased alcohol consumption is due to the addictive factor and it is the habitual behavior of people that leads to increased consumption. However, it is important to consider the income effect of alcohol consumption, especially in the context of Kerala. A major criticism against the Kerala Model of Development was that it is social development without economic development. However, during the last few years, the growth rate of the State Domestic Product as well as per capita income is above the national average. Again, Kerala is home to huge inflow of foreign remittances. Further, there was substantial increase in disposable income as a result of the fund transfer through schemes like MGNREGP and subsidized Rice

(Rs.1/KG) scheme. Therefore, the study is considering the income effect rather than the addictive effect.

The prices of alcoholic beverages are well established predictors of alcohol consumption and related social and health harms, including mortality. However, the closely related concept of alcohol affordability has received less attention. A recent study of alcohol demand in New Zealand has found that affordability was a more important determinant of alcohol consumption than real price over the 1988–2011 period, indicating the need for greater attention to this measure in order to affect health outcomes.

Alcohol affordability has been generally defined in terms of the relationship between the price of alcohol and personal or household income, with the key issues being which price and income measures are the most appropriate. An earlier New Zealand study used data on average whisky, wine and beer prices and average hourly gross earnings to calculate alcohol affordability as the number of minutes of work required to purchase four 10-gram standard drinks; the number of minutes required declined by 13% (for wine) to 24% (for spirits) between 1999 and 2010. This measure is similar to some commonly used tobacco affordability measures.

The study on alcohol affordability and consumption in Kerala addresses the key issue of consumption from the purchasing power angle and probably overlooks the addictive angle of it. It has done justice to the hypothesis that there is a link between increased affordability and increased consumption of alcoholic beverages. Economic theory also supports the view that real wages might have increased in Kerala in recent years. The stylized facts of the business cycle theory concludes that real wages are slightly pro-cyclical. This was established through the research done by economists of the Real Business cycle school, viz, Finn Kydland, Edward Prescott, Charles Plosser etc. They proved the conventional wisdom prevailed till the 1980's that real wages are counter-cyclical, wrong. The counter cyclical nature of real wages was resting upon the belief that prices will rise faster than wages during an upswing of the economy. But the research by RBC theorists, strongly establish that real wages are mildly pro-cyclical. The pro-cyclical nature of real wages in Kerala is probably the major reason for increased affordability. Along with this, the welfare schemes of the government are also impacting the

affordability. Further, the study disagrees with the general perception that the pattern of alcohol consumption in Kerala is the worst among the South Indian states. In fact, Kerala is better on certain aspects. Kerala is having the most controlled and monitored system of liquor sales with the lowest presence of illicit liquor. The official statistics of consumption in neighboring states is appearing to be less than that of Kerala because it excludes the large presence of illicit liquor sales in those states. The reason for the long queue in front of BEVCO outlets in Kerala need not be taken as an indicator of alcoholic addiction in Kerala. Rather it is because of the relatively less number of retail outlets in Kerala compared to neighboring states. The single largest contributing factor behind a surge in IMFL consumption is the banning of country arrack in 1996. Overall, the study urges for sensible and calibrated policy actions by authorities to deal with the social and economic issues revolving around liquor sales and consumption.