

CHAPTER IX

STATE EXCISES

Among the major sources of revenue which are available to State Governments are duties of excise on 'alcoholic liquors for human consumption'. This was the position under the Government of India Act, 1919; it remains much the same under the Constitution of India. Under entry 51 of List II of the Seventh Schedule to the Constitution, the States are empowered to levy—

Introduction

“Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:—

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and narcotics;

but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.”

2. The revenue from this source represents 8·7 per cent. of the aggregate tax revenues of State Governments in 1954-55. But while, in many other countries, it is principally considerations of revenue that have influenced public policy in the levying of duties on intoxicants, it can be asserted that in India excise duties have been levied more with a view to restricting consumption of intoxicants than to raising revenues. The Government of India in their resolution dated 7th September 1905 described the general lines of their excise policy in the following terms:—

Excise policy as laid down in 1905

“The Government of India have no desire to interfere with the habits of those who use alcohol in moderation and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink and to discourage excess among those who do, and to a furtherance of this policy, all considerations of revenue must be absolutely subordinated. The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit consumption to a degree which would increase instead of diminishing the total consumption and without driving people to substitute deleterious drugs for alcohol, or a more or less harmful form of liquor. Subject to the same consideration, the number of liquor shops should be restricted as far as possible and their location should be periodically subject to strict examination with a view to minimise the temptation to drink and to conform as

far as is reasonable to public opinion. It is also important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health".

3. For a majority of the States, excise on alcoholic liquors has been second in importance among their sources of revenue. For some States, receipts from excise duties are even larger than from land revenue. During the War, receipts from excise duties increased very considerably' practically in all States. Today, excise duties form an important source of revenue for a large number of States, including those which have gone in for partial prohibition. The trend of receipts before and after the War in different States will be seen from the following table:—

TABLE 1.—*Figures showing trend of Excise receipts*

(In crores of Rupees)

S. No.	State	1937-38 Accounts	1946-47 Accounts	1948-49 Accounts	1950-51 Accounts	1954-55 Budget Estimates
<i>Part A States</i>						
1.	Andhra . . . . .	..	..	..	..	0.08
2.	Assam	0.36	0.82	0.95	0.93	1.20
3.	Bihar	1.22	5.15	4.85	5.26	4.71
4.	Bombay	3.22	9.74	6.17	1.07	0.68
5.	Madhya Pradesh	0.67	2.24	2.19	2.31	2.42
6.	Madras	4.03	14.68	3.67	0.55	0.21
7.	Orissa	0.34	1.11	1.36	2.13	1.51
8.	Punjab	1.07	3.32	2.38	2.08	2.36
9.	Uttar Pradesh	1.45	6.74	6.53	6.51	5.38
10.	West Bengal	1.55	6.42	6.22	6.20	5.06
<i>Part B States</i>						
11.	Hyderabad . . . . .	..	..	..	9.69	8.84
12.	Madhya Bharat . . . . .	..	..	..	1.89	1.56
13.	Mysore . . . . .	..	..	..	2.00	1.54
14.	PEPSU . . . . .	..	..	..	1.90	1.73
15.	Rajasthan . . . . .	..	..	..	2.49	2.46
16.	Saurashtra . . . . .	..	..	..	0.15	0.06
17.	Travancore-Cochin . . . . .	..	..	..	2.18	2.12

TABLE 1.—*Figures showing trend of Excise receipts—contd.*

(In crores of Rupees)

S. No.	State	1937-38 Accounts	1946-47 Accounts	1948-49 Accounts	1950-51 Accounts	1954-55 Budget Estimates
<i>Part C States</i>						
18.	Ajmer . . . . .	..	..	..	..	0·28.
19.	Bhopal . . . . .	..	..	..	..	0·16.
20.	Coorg . . . . .	..	..	..	..	0·11.
21.	Delhi . . . . .	..	..	..	..	1·14.
22.	Himachal Pradesh . . . . .	..	..	..	..	0·15.
23.	Vindhya Pradesh . . . . .	..	..	..	..	0·31.
TOTAL						44·01

4. As indicated earlier, the excise policy in general has been one of temperance and of restricting the consumption of intoxicating drinks. State Governments try to minimize the consumption by levying heavy duties on the different kinds of drinks. The rates of duties are heaviest on foreign liquors and vary from Rs. 35 in Mysore to Rs. 93 in Bombay. On country liquors, the rates vary from Rs. 9/4/- per gallon in Travancore-Cochin to Rs. 30 in Bombay, while on country spirit they vary from Rs. 15 in Vindhya Pradesh to Rs. 54 in West Bengal. In addition to the excise duties, licence fees are charged for manufacture or sale of liquor or for tapping toddy trees, etc. Similarly, several fees like permit fees, vend fees, outstill duties are also levied. Manufacture or sale of liquor is forbidden except under licences which are generally granted by auction to the highest bidders. The manufacture of country spirit is done in Government distilleries or under the direct supervision of the excise staff.

All supplies are drawn from Government warehouses which ensures that the liquor is not more than of the prescribed strength. The licensed sellers have to sell the country spirit between fixed hours and at fixed selling rates. As in the case of country spirit, the right of tapping and selling toddy is also auctioned. In addition to the licence, in some States the licensee has to pay a tree tax to Government except in hilly areas where the tax is not recovered and the right of tapping is enjoyed by persons belonging to the scheduled tribes. The sale of other alcoholic drinks and of intoxicating drugs is also permitted only through licensed dealers.

5. While till 1921, the policy was one of regulation and of discouraging the use of alcoholic drinks in excess, after 1921, i.e., with the introduction of the first Constitutional Reforms, the movement towards prohibition gained strength and resolutions declaring that prohibition was the ultimate goal of excise policy were passed by several

**Excise policy :
past and present**

State legislatures. During the period of 1921 to 1937, several State Governments took measures to minimise the consumption of alcoholic drinks by the enforcement of stricter controls over the manufacture and distribution of intoxicating liquors, by raising excise duties, auction bids, licence fees, etc. and by imposing heavy penalties on illicit distillation. In a few States, Committees were appointed to investigate the possibilities of reducing the revenue from excise or of introducing prohibition. It cannot be said, however, that these steps led to any appreciable curtailment of consumption or loss of revenue. There was all the same, some decline in revenue in several States as the result of the picketing of liquor shops and toddy booths that was resorted to as part of the Civil Disobedience Movement in 1930-31 and 1932-34. The enforcement of complete prohibition, it may be noted, figured as the first item in the national demand submitted by Mahatma Gandhi to the British Government in 1931.

6. With the inauguration of Provincial Autonomy in 1937 came the installation in office of Congress Ministries, except in Bengal, Punjab and Sind. Several of the Provincial Governments declared their policy to be that of complete prohibition. A few, among them, Madras and Bombay, started implementing this policy in well defined stages. When World War II broke out, the Congress Ministries resigned. With their withdrawal, the policy of prohibition received a setback in the provinces where it had been adopted. While, in a few States, prohibition was not allowed to be extended beyond the areas where it was in operation, in some States the restrictions previously imposed were relaxed and in others there was complete reversal. In consequence, as mentioned above, during the War, receipts went up to figures never reached before, partly because of inflationary conditions and partly owing to the influx of Defence Forces from abroad. With the resumption of office by the popular Ministries, prohibition was once again accepted officially as the goal of excise policy by a majority of the State Governments. Subsequently, prohibition came to be included in the directives of social policy set forth in the Constitution. In Article 47, the Constitution directs that the States "shall endeavour to bring about prohibition of consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health".

7. We may now review the excise policy of various State Governments and the effect it has had on their revenues. The opium policy decided upon by international agreement is one that is regulated at the instance of the Government of India. Under the Resolution of the All-India Opium Conference, 1949, the consumption of opium, except for medicinal or scientific purposes is to be prohibited. This prohibition is to be achieved within a period of ten years by imposing a ten per cent. cut in consumption every year. The production of opium is a monopoly of the Government of India who, in pursuance of this policy, regulate the allotments of the quota of opium to the States. After 1959, opium will not be sold except for medicinal and scientific purposes. As regards other intoxicants, the different States in India can be divided into the following three broad groups on the basis of their excise policy:—

1. *Complete Prohibition*.—Bombay, Madras, Andhra and Saurashtra.

Present policies in different States

2. *Partial Prohibition*.—Uttar Pradesh, Madhya Pradesh, Mysore, Orissa, Travancore-Cochin and Coorg.

Others:

- (a) *States with some dry areas*.—Assam and Punjab;
- (b) *States observing a temperance policy*.—Bihar, West Bengal and Madhya Bharat;
- (c) *Other States*.—Hyderabad, PEPSU, Rajasthan, Himachal Pradesh, Ajmer, Bhopal, Delhi and Vindhya Pradesh.

8. *Bombay*.—In Bombay, in 1938 the Congress Ministry introduced the Prohibition and Dry Area schemes in certain selected parts of the Province. In the latter part of 1939 the Ministry resigned, and thereafter particularly because of the situation created by the High Court decision, the Governor who assumed charge of the administration under Section 93 of the Government of India Act, thought it best not to pursue the prohibition policy further. In view of the modification of the policy and with the gradual emergence of inflationary conditions, during the War, the revenues of the State Government from excise began to mount up. Excise receipts which amounted to Rs. 2·8 crores in 1938-39, increased to Rs. 3·7 crores in 1942-43 and to Rs. 9·7 crores in 1946-47. In fact, in 1946-47 it was the largest single source of tax revenue, yielding about 34 per cent. of the total tax revenues. With the resumption of responsible Government in 1946, a decision was taken by the Congress Ministry to bring about complete prohibition in the State by gradual stages within three years from 1st April 1947. Progressive reduction in consumption was ensured by—

- (i) closure of excise shops for 2 days in 1947-48, 3 days in 1948-49 and 5 days in 1949-50,
- (ii) progressive reduction in the number of shops, and
- (iii) reduction in the strength of liquor in the case of country liquor.

In this manner, complete prohibition was brought about in the State with effect from 6th April 1950. A separate law called the Bombay Prohibition Act, 1949, has been enacted for giving effect to this policy. Members of the armed forces, diplomatic representatives of foreign countries, visitors from foreign countries and temporary residents are granted foreign liquor permits subject to certain conditions. Permits for consumption of foreign liquor, opium, ganja, or bhang are also granted to the residents of the State on grounds of health, while the use of these intoxicants for medicinal purposes is permitted under a system of licences. The cost of enforcement is estimated at Rs. 86 lakhs (and is mostly due to additional police) against expenditure amounting to Rs. 79 lakhs incurred on the maintenance of the Excise Department in 1946-47—the last pre-prohibition year. Prohibition has, however, not involved complete extinction of receipts from excise. As some restricted consumption is permitted, the Bombay Government realise about Rs. one

crore a year from the levy of a special sales tax on intoxicants and from excise duties and vend fees.

Madras.—In Madras, prohibition was introduced in the middle of 1937-38 in one district and extended to one more district in 1938-39. With the resignation of the Congress Ministry, not only was the policy of prohibition not implemented further but it was suspended, partly in 1944 and completely in 1945. With a responsible Ministry again assuming office, the policy of prohibition was revived in 1946-47 and extended. By 1948-49, prohibition was introduced in all the districts of the State. During the War, excise receipts were much larger than receipts from land revenue. The receipts which in 1938-39 amounted to Rs. 3·8 crores, increased to Rs. 16·8 crores in 1945-46 against Rs. 8 crores from land revenue during the same year. They have now dropped to about half a crore of rupees with the enforcement of complete prohibition. The receipts that are derived now are from excise duties, sales tax on foreign liquor at the rate of eight annas per rupee and vend fees on such production and sales as are permitted under certain restrictions.

Andhra.—In Andhra, which was a part of Madras till recently, the same conditions prevail. A Committee was recently appointed to examine the working of prohibition in the State. This Committee has made several recommendations and suggested a revision of the prohibition policy. Though the State Government have not accepted the recommendations of the Committee, they have decided to permit the consumption of foreign liquor and also to permit the tapping, sale and consumption of *neera* under the supervision and control of local panchayats or some other suitable agency.

Saurashtra.—In the pre-integration days, there was complete prohibition, since 1923, in the leading State of Bhavnagar. Prohibition throughout Saurashtra was, however, introduced in 1950 when the Prohibition Act of Bombay was applied to the State and the manufacture and consumption of country liquor were totally prohibited while intoxicants were permitted under strict regulations and under a permit system as in Bombay. Before the introduction of prohibition, Saurashtra realised Rs. 8·4 lakhs from excise duties. The low realisations from excise duties were mainly due to there being a smaller number of duties levied at nominal rates and to prohibition being in force in the area of the former State of Bhavnagar. The rates have since been increased and at present, Saurashtra realises about Rs. 6·2 lakhs of which Rs. 5·0 lakhs are from duties on opium and hemp drugs.

9. Since the resumption of office by responsible Ministries in 1946, some States have gone in for a programme of partial prohibition. There is prohibition introduced in a few districts and a policy of restricting consumption of intoxicants is adopted in others.

Uttar Pradesh.—In Uttar Pradesh, there is prohibition in eleven districts and the measures taken for restricting consumption in other districts are:—

- (1) closure of excise shops within a five-mile belt of dry districts,

- (2) closure of cinema bars and reduction in the number of restaurant bars,
- (3) curtailment of hours of sale for all urban shops,
- (4) imposition of restrictions on the quota of country spirit for each district, and
- (5) increase in the rates of excise duties.

The excise revenue in Uttar Pradesh was Rs. 1.2 crores in 1938-39. It reached the peak figure in 1947-48 with receipts amounting to Rs. 6.7 crores. Thereafter, the revenue has been declining on account of the policy of partial prohibition adopted by the Government and in 1954-55 it is expected to be about Rs. 5 crores.

In Madhya Pradesh, one-third of the area of the State has been declared 'dry'. There is prohibition in six out of ten districts in Mysore, and in three out of thirteen districts in Orissa. In Travancore-Cochin, thirteen talukas out of thirty-six are dry. In Coorg, the partial prohibition takes the form of reduction in the permissible consumption. Since 1949, the retail sale of arrack has been restricted to eight drams per head per month to those who are more than 21 years of age.

10. In Assam, complete prohibition has been introduced since 1953, in the Barapeta sub-division. In other States with some dry areas, attempts to restrict consumption of liquor are made by imposing restrictions on hours of sales, closure of shops on pay days to tea gardens, etc. In Punjab, prohibition has been introduced only in the district of Rohtak since 1948. The experiment has not been extended to other areas because smuggling takes place on a large scale and the State Government are of the view that prohibition cannot be successful within a small area unless the adjoining areas fall in line and the finances of Government are strong enough to bear the loss.

11. A policy of temperance is in force in Bihar, West Bengal and Madhya Bharat.

Bihar.—In Bihar, prohibition is recognised to be the aim of State policy. But the fear is expressed that it may not be successful unless there is a vigorous temperance propaganda everywhere, and that the immediate enforcement of prohibition may only involve a loss in revenue without achieving its object. Temperance propaganda has been started in Ranchi as an experimental measure. The receipts realised are about Rs. 4½ crores but they show a declining tendency. This is attributed mainly to growing unemployment and a diminution in the purchasing power of the people. The duties on country spirit have been increased from time to time and are now reported to have reached their peak. Actually, the revenue went down on account of these high rates which led to an increase in the consumption of illicit liquor. To meet the situation the Government had to reduce the rates in certain areas.

West Bengal.—Bengal obtains a revenue of about Rs. 5 crores from excise duties. As compared to the receipts during the previous years, they show a declining tendency since 1952-53. This downward trend has been attributed to a fall in the purchasing power and to the growth of illicit distillation. The West Bengal

Government follows the policy of maximum revenue with minimum of consumption, and for that purpose, has taken the following steps:—

- (1) reduction in the number of excise licences for retail sale,
- (2) reduction of working hours of excise shops in industrial areas,
- (3) closure of liquor shops of Calcutta, and other industrial areas on Tuesdays,
- (4) upgrading of the rates of taxation on liquors and drugs, and
- (5) intensification of measures for the prevention of illicit distillation.

In pursuance of this policy, the rates of duty on country spirit were increased in 1953 from Rs. 46 in 1946 to Rs. 53. On India-made foreign liquor the rate has been raised from Rs. 30 to Rs. 70 in 1952.

Madhya Bharat.—In Madhya Bharat also, the State Government have adopted a policy of realising maximum of income from minimum of consumption and the following steps have been taken:—

- (i) stepping up prices;
- (ii) minimising the number of shops;
- (iii) prohibiting sale to persons below a certain age; and
- (iv) keeping shops closed on festival and certain other days throughout Madhya Bharat and also on pay days of labourers in the cities of Gwalior, Indore, Ujjain and Ratlam.

12. In the remaining States, there is neither a policy of partial prohibition or even of temperance. They rely to a large extent on excise revenues and seem opposed to any relinquishment of revenue from this source. The important among these are Hyderabad, PEPSU and Rajasthan and a brief review of the excise policy in each of these States is given below:—

Hyderabad.—The Hyderabad Government gets nearly Rs. 8·8 crores from the excise duties. Out of this, about Rs. 7·5 crores are realised from duties on country-fermented liquor. Excise revenue accounts for one-third of the total revenue of the State, and this is the largest source of income to the State. The Government have at present no policy under consideration which would involve relinquishment of this revenue.

PEPSU.—The PEPSU Government realise about Rs. 1·8 crores from excise duties. The State Government believe that they can ill-afford to forgo any part of this revenue, particularly, as by 1959, their revenue from the duty on opium will be completely lost. In regard to their excise administration and the rates of their duties, they follow the system prevailing in Punjab State.

Rajasthan.—The Rajasthan Government have no intention of introducing prohibition but pursue a policy of maximum revenue with

minimum consumption. The price of the country liquor has been increased in 1952 and 1953 and it is reported that there is no scope for any further rise as this increase has already affected revenue by increasing illicit distillation. The State realises about Rs. 2½ crores from its excise duties.

13. It is clear from the foregoing review that, at the moment, there is not in existence an all-India policy, or **Future excise policy** an all-India programme as such, for the achievement of total prohibition. At one end are Bombay, Madras, Andhra and Saurashtra, all of which have already adopted a policy of prohibition, and at the other end are PEPSU, Rajasthan and Hyderabad (for example) which consider themselves not in a position to effect any immediate curtailment of their excise revenue. In between, are a number of other States which have adopted policies which approximate in varying degrees to prohibition or temperance. We have had long discussions among ourselves on the shape that excise policy should take in the future, and have been unable to arrive at unanimity in our views.

14. Three of us are of the opinion that the constitutional directive in regard to prohibition should be implemented as early as practicable and that, for the purpose, an all-India time limit should be agreed upon within which all States—some, may be, earlier than others—will have completed the process of introduction of complete prohibition. They are aware, of course, that this would, to that extent, accelerate the loss of excise revenue already in progress. In their view, however, the enforcement of prohibition leads to a general improvement in the standard of living of the poorer sections of the community addicted to drink and adds to their purchasing power. This process may secure increased yields from other sources of taxation. But this apart, they believe that in relation to so basically important a measure of social welfare as prohibition—one, moreover, which has been specifically enjoined by the Constitution—revenue considerations must take a subordinate place.

15. According to them, while the aim of the official excise policy in India has, for the last 50 years, been one of reducing consumption by the levy of high duties, the State Governments, as pointed out by the Madhya Pradesh Prohibition Enquiry Committee, have usually been steadily increasing excise duties "in pursuit of revenue though professing to reduce consumption". In the Andhra Prohibition Inquiry Committee's Report, also, it has been observed that "the objective of minimum consumption was not helped but vitiated by the objective of maximum revenue in which revenue was sought to be obtained from the poorest classes for being spent on society in general". In the opinion of these three members, it is thus clear that the aim of reducing consumption has come to be ignored, and that though half a century has elapsed since the policy was first adumbrated, no tangible results in the direction of reducing consumption have flowed from the manner in which it has been in operation so far.

16. They are hence of the opinion that the policy of maximising revenue and minimising consumption is self-contradictory, that it has not worked in practice, and that, equally, any programme for the rationing of liquor—particularly of toddy and country spirit

which form the bulk of the consumption—with a view to the eventual abolition of its consumption, would be administratively unworkable. Appreciating the logic of this position, most of the States, in their view, have accepted prohibition as the goal of their excise policy. It is, however, mainly because of revenue considerations and partly because of administrative difficulties that they have been deterred from taking further steps in that direction. It is this twofold aspect of excise policy that has recently engaged the attention of the Government of India. The Planning Commission has already, we have been informed, undertaken a comprehensive enquiry with a view to seeing how the directive on this subject in the Constitution can be implemented effectively. The future course of action, in all States would, no doubt, be influenced largely by the findings of this inquiry, and the three members believe that it should provide the basis for a properly phased programme for the introduction of prohibition.

While refraining from suggesting a specific period for this purpose, they would, however, as already stated, like to see adopted an all-India target date by which all such States as have not yet done so will have introduced total prohibition in their respective areas; at the same time, they would emphasize very strongly the importance of suitable and adequate preparatory work, both administrative and by way of popular education, in order to ensure the success, in a real sense, of the policy of prohibition.

17. The other three members of the Commission draw attention to the fact that, while prohibition is undoubtedly among the more important directives of the Constitution, it is nevertheless only one of several such directives. For this reason, they hold that the pace of implementation of prohibition has to be considered, not in isolation, but as part of the wider question of assigning priorities and formulating legislative and administrative programmes—with due regard to the need to phase limited resources in men and money—for the different objectives embodied in the Constitution. They, moreover, emphasize that, with reference to individual States, the pace itself will have to be conditioned by the administrative resources and effort that can be made available for the effective enforcement of prohibition. In their view, it is such enforcement, that is to say, enforcement which successfully eliminates all consumption of intoxicants—and not merely the legal measure which prohibits the consumption of liquor or the administrative measure which withdraws the State's own supply of liquor—which constitutes the essence of the particular directive policy laid down by the Constitution. These members, equally with the other half of the Commission, hold that the fiscal aspect itself, in the light of the avowed objective of policy, must undoubtedly be treated as secondary; they only add the qualification that that does not mean that this aspect is devoid of a certain degree of significance which, in their present financial position, has to be taken into consideration by several States. They also point out that, for obvious reasons, the Commission has not felt called upon to examine, from the point of view of the administrative enforcement of prohibition, the varying abilities and potentialities of different States. Since administratively, no less than fiscally, prohibition falls within the sphere of the States, and since the administrative resources of a particular State as well as its revenue resilience are two of the

important considerations relevant to the assignment of priorities, it appears to the three members that the pace at which the objective underlying prohibition is to be approached by different States has to be left to be decided by individual States. In any case, the Commission itself is not in possession of material which would enable it to recommend as practicable the adoption, either generally or specifically, of a target date for the introduction of prohibition on a countrywide basis.

18. In view of this equal division of opinion among the members in regard to the future of excise policy in terms of the whole of India, the Commission is not in a position to make any recommendations on such policy.