

The Science of Progress

New Thinkers Colloquium, March 2026

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Karnataka excise and alcohol regulation reform

Karnataka alcohol situation today

- Alcohol economy is large and sizeable.
- Alcohol consumption increasing across various categories.
- Evidence of increasing social costs of alcohol consumption.
- High and increasing levels of revenue from excise duty.
- But excise duty structure is distorted and inverted.
- Higher the alcohol content lower is the duty !
- Very intrusive micro-management of industry by the Excise Department/GOK.
- In today's context most controls serve little purpose.
- Reportedly the source of enormous rent generation.

Issues in Karnataka

Lower prevalence, higher intensity: A smaller than national average share of adults (15+) consume alcohol, but higher volumes, raising per-capita consumption.

- **Price-segment concentration:** Consumption volume high in low-priced liquor, keeping per-capita expenditure below national average despite higher volume.
- **Revenue driven by taxation, not value:** High excise rates & heavy-handed enforcement translate low-value consumption into high per-capita tax collection.
- **Social cost risk:** High-volume consumption among fewer users increases health, productivity, and law & order risks, even without high consumer spending.
- **Excessive tax focus:** Revenue maximization via taxation fiscally efficient but socially costly.
- **Policy implication:** Need to rebalance excise policy toward harm reduction, quality shift, and targeted taxation rather than volume-driven consumption.

Current excise duty structure

Category	Sales volume 24-25		Alcohol content of the sales volume (in litres)	ED+AED (in crores)	Excise per litre of alcohol
	in litres	% to total sales volume			
IML	60,43,80,068	61.335	25,64,78,639.90	28,802.52	1,123.00
Beer	37,35,93,530	37.914	2,42,83,579.48	5,783.58	2,381.68
Wine	74,09,253	0.752	12,62,633.52	49.52	392.20
Total	98,53,82,851	100.00	28,20,24,852.90	34,635.62	1,228.11

Source: Excise department

Proposed new excise duty + AED structure

Proposed slabs- IML

Slab	Ex-factory price slabs		ED	AED
1	0	470	1000	50
2	471	520	1000	220
3	521	570	1000	525
4	571	650	1000	750
5	651	750	1000	850
6	751	1300	1000	1150
7	1301	5000	1000	1750
8	5001	& above	1000	3700

Proposed slabs- Beer

Slab	Ex-factory price slabs	ED	AED
1	0 to 500	1000	800
2	501 to 700	1000	1400
3	701 to above	1000	2700

Summary of suggested recommendations

- No government-administered price fixing.
- Rationalization and reduction of pricing slabs.
- No role for government in determination of slabs.
- Producers decide which slab to slot their products.
- Uniform Excise Duty with a defined range for Additional Excise Duty.
- Align taxation with alcohol in beverage.
- Substantial reduction in regulatory controls and restrictions.
- Institutional separation of “taxation” and “responsible consumption”.
- Some excise revenue to be earmarked for addressing the social costs.

Karnataka budget announcement: Extract

Paragraph 502 of the GOK budget speech:

An Alcohol-in-Beverage (AIB) based excise duty structure is globally recognized as the gold standard for alcohol taxation, as it directly targets the alcohol content which is the *primary source of negative externalities*.

This will be introduced from April 2026.

Karnataka budget announcement: Example of impact

United Spirits and United Breweries shares rise up to 6.5% and 11% respectively as Government of Karnataka revamps liquor policy.

Regulation reform: Another example of
लगे रहो मुन्नाभाई

Regulation in India

- The Indian growth journey involves constructing a well-functioning market economy.
- The role of the State, in a well functioning market economy, consists of successfully addressing market failures. Regulation is the use of the coercive power of the State to force private firms to behave in modified ways.

Market failure	Useful intervention
Public goods	State provision (either make or buy)
Market power	Regulation
Asymmetric information	Regulation
Externalities	Negative: Regulation Positive: State funding

Why revisit the regulatory state now?

- Expansion of the regulatory footprint across sectors.
- Persistent concerns: lack of rule of law, discretion, delay, opacity, weak accountability.
- Reform debates remain fragmented and siloed.
- Need for a system-wide, regulatory theory and institutional perspective.

> Regulation in India, a volume edited by K.P. Krishnan and Ajay Shah (*forthcoming*).

The Community

Part I: Regulatory Theory (for India).

Part II: Sectoral Studies.

Part III: Reflections and perspectives on regulation and India's growth strategy.

43 Chapters.

50+ Contributing Authors - practitioners, former civil servants, academics.

Across domains - financial and non-financial (health, environment, energy, education).

Where are we in this journey?

- A ₹ 2.5cr project.
- We began in Feb 2025.
- We onboarded authors in May 2025.
- 3 iterations of drafts: Nov 2025, April 2026, and June 2026.
- 3 conferences: Dec 2025, Jan 2026, and May 2026 (upcoming).
- Knowledge Partners: ICPP, XKDR Forum, TrustBridge.
- Institutional Partners: NALSAR, Hyderabad and NLSIU, Bangalore.

What next in in this long journey?

- Be ready- we don't know when the opportunity arrives.
- Need a community of thinkers willing to give time.
- Look for windows of opportunity.
- We need friendly sympathetic like minded civil servants.
- We need to solve their problems.
- Are we only preaching to the converted? Is this becoming an echo chamber?

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Thanks.