Microeconomics IA
Commentary 1

Commentary	1 — Microeconomics
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Article Summary

Jamaica's 2026–27 Budget introduces a new Special Consumption Tax (SCT) on non-alcoholic sweetened beverages, set at $0.02 per millilitre, projected to raise $10.1 billion in its first year. Industry figures have criticised the levy as regressive — disproportionately affecting lower-income households — while public health advocates have welcomed it as a long-overdue measure to combat obesity and diabetes. The Opposition has questioned whether the tax will meaningfully change consumer behaviour, given relatively inelastic demand for sugary drinks, while the Finance Minister has framed the measure as part of a broader fiscal package addressing the aftermath of a major hurricane.

Commentary

Sugary drinks are demerit goods that generate negative consumption externalities, since their consumption imposes costs on third parties — in this case, the public healthcare costs associated with treating diet-related diseases such as obesity and diabetes, costs that are not reflected in the market price. To correct this market failure, Jamaica's Ministry of Finance has imposed a new Special Consumption Tax (SCT) on sweetened beverages, expected to raise $10.1 billion in its first year. This indirect tax aims to improve **allocative efficiency** — ensuring resources are allocated in a way that maximises social welfare.

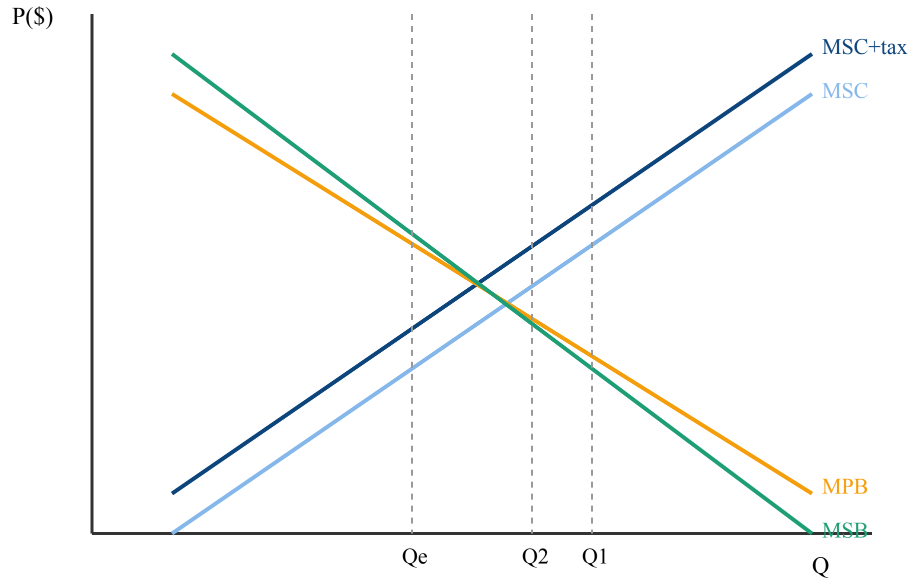

Diagram 1: Indirect tax on the negative externality of consumption (MSB/MSC framework)

In the free market for sugary drinks, consumers base decisions on marginal private benefit (MPB) without accounting for the external costs reflected in marginal social benefit (MSB), leading to overconsumption beyond the socially optimal quantity Qe — the market settles at an inefficient equilibrium, with the resulting welfare loss representing the burden placed on Jamaica's public healthcare system.

The SCT shifts the marginal social cost (MSC) curve upward by the amount of the per-unit tax, raising the price producers must charge and reducing the quantity transacted from Q1 toward Q2 — closer to the socially efficient output Qe. The price impact is significant in nominal terms (for example, an additional $6 on a 300ml drink and $40 on a two-litre bottle), and the resulting tax revenue helps finance the government's broader $29.439 billion revenue package introduced in the aftermath of recent hurricane damage.

However, the effectiveness of this tax in improving allocative efficiency depends heavily on the price elasticity of demand (PED) for sugary drinks. The Opposition has argued that demand is "relatively inelastic," meaning a given price increase produces only a small fall in quantity demanded — if so, the tax may fail to substantially correct the externality, instead simply requiring consumers to pay more for a similar quantity. Indeed, the government's own revenue forecast implicitly assumes limited behavioural change, since a large anticipated reduction in consumption would itself reduce projected revenue.

This also raises equity concerns. Because the SCT is levied per millilitre regardless of income, it is regressive: it takes up a larger proportion of income for lower-income households than for wealthier ones. Industry critics have characterised this as effectively "a tax on the poor," noting that other high-sugar products outside the beverage category remain untaxed — undermining the consistency of the policy's stated public health rationale.

Beyond the direct price effect, the tax may also improve efficiency through an information/awareness channel: by raising public awareness of the externality, it may shift the MPB curve closer to MSB over time, independent of the price mechanism alone. Public health advocates have also called on manufacturers to reformulate products toward lower sugar content, which would shift the underlying MSC curve back toward MSB — a more durable solution than price adjustment alone.

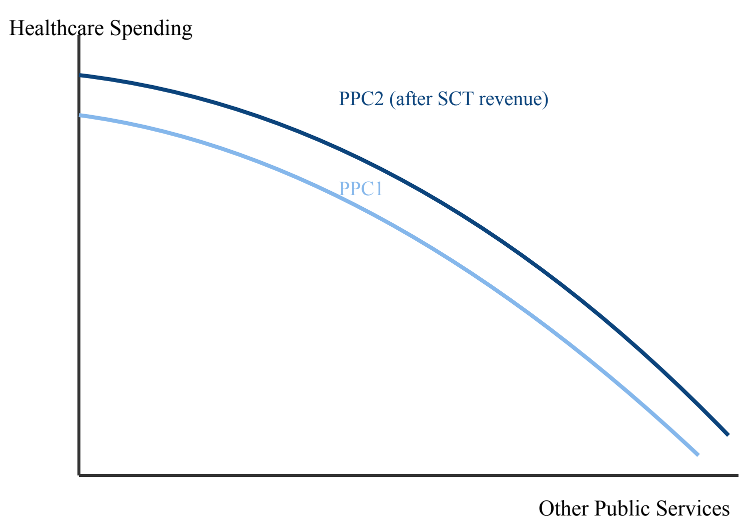

Diagram 2: Outward shift of the public sector production possibility curve following new SCT revenue

The new SCT revenue also allows an outward shift of the public sector's production possibility curve (PPC) — shown in Diagram 2 — between healthcare spending and other public services. Since the tax generates new revenue without raising existing taxes, the government can fund diabetes-related healthcare and broader post-hurricane recovery spending without a strict opportunity-cost trade-off between the two, which is particularly significant given the Finance Minister's emphasis that administrative measures alone cannot close the post-hurricane fiscal gap.

Overall, while Jamaica's SCT represents a reasonable attempt to correct the negative externality of sugar consumption and move the market closer to allocative efficiency, its real-world impact is constrained by inelastic demand and its regressive structure. A more effective and equitable approach would combine taxation with targeted subsidies for healthier alternatives, rather than relying on the price mechanism alone to shift deeply embedded consumption habits.