

Disadvantages of a system of subsidies economics essay



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Subsidy can be said has advantages and disadvantages to farmer and consumer. Subsidies granted to energy producers to develop more efficient for agriculture field. Government encourages an industry by reducing taxes. The government provides housing subsidy for the poor families. However, they may encourage inefficiency by relying more in the subsidy money that offered by the government. Raising the income while prices are rising will cause the final products to lose their competitiveness in the international market. Subsidy sometimes is difficult to decide on who may receive a subsidy and the government has poor information about the service and how much to subsidies.

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Definition of Subsidy

Economic benefits (such as allowances or tax rebate), or the benefits given by the government, groups or individuals are usually paid in cash or the form of tax cuts. Subsidies usually remove some type of burden to reduce cost of production and expansion to increase supply, maintain the income of the producers of certain products and maintain employment levels. One industry that commonly receives government subsidies is the agriculture industry. Agricultural subsidies are given to farmers in order to support its business because need to be ensure that country's self-sufficiency in food supply. Government subsidies to farmers can take the form of capital (to ensure that they have enough money to invest in their own farm) or to purchase the excessive crop the warehouse after are filled. In addition, the government also indirectly subsidize the purchase of personal or family that we can common see such as allowing the a cheaper house built housing subsidies. By reducing the cost for low-income families, the government ensures that more families are in homes. It makes individuals in their attempt to find a stable job, and also provides more disposable income of poor families.

Advantages of a System of Subsidies from the Point of View of Farmer

Subsidy is an economic benefit that brings lot of advantages to farmer. In order to help the old and the new energy development and exploration, the federal government has the pursuit of these initiatives on corporate subsidies. Subsidies granted to energy producers to develop more efficient, more economical production and distribution process. For example, the government provides the agriculture subsidies to the farmer to improve their method of production. Most of the farmers do not have enough money to buy a new and modern machine to increase the speed of production. With the subsidies, they are able to use the money to buy a high technology machine to improve their production during their working times. It helps them a lot to save the cost of production and time. Improvement in technology will make supply increases. This is because the farmer has more efficiency to produce more agriculture products based on the demand of consumer. It can be seen in the graph below.

Government subsidies of agricultural industrialization, can also take a less direct way. Government encourages industry, an industry or a certain product or new labor and employment taxes related to the reduction in the case of many wage and subsidy funds by reducing taxes. These types of subsidies usually are in the form of tax credits for specific industries.

Therefore, although it may not have the same look directly provide funds and purchase the product, wage subsidies and capital still has the same purpose to provide additional funds to promote a particular industry such as

farm subsidies make agricultural production more profitable by increasing and stabilize farm prices and incomes.

Disadvantages of a System of Subsidies from the Point of View of Farmer

Subsidy can be said will bring certain disadvantages to farmer and consumer. Farmer subsidies can be intended to be consumer-friendly and taxpayer-friendly. However, they may encourage inefficiency by relying more in the subsidy money that offered by the government. The farmer still can receive the subsidy that offered by the government even though their agriculture has no gain any profits. Farm subsidies also control the normal market cycle. Raising the income while prices are rising will eventually raise commercial and industrial costs, causing the final products to lose their competitiveness in the international market. For example, if the cost of production of tomatoes increases, the supply of tomatoes will decrease.

In the graph above, we can see that the higher price of factors of production, higher cost of production, the supply of tomatoes decreases. This is because the producer cannot afford the higher cost due to the demand of tomatoes. The cash from farm subsidies prevent the normal fluctuation in price due to supply and demand. According to the Environmental Working Group Farm Subsidy Primer, this makes the price totally dependent on government intervention in addition to the payment of the disaster. Agricultural subsidies are to correct low crop prices, and increasing farmers' incomes. With negative subsidies, farmers are encouraged not to produce a particular crop or product. Farm subsidies are benefits to help poor and trouble family farmers. Instead, they harm them by excluding them from most subsidies, <https://assignbuster.com/disadvantages-of-a-system-of-subsidies-economics-essay/>

financing the consolidation of family farms, and increasing land values to levels that prevent young people from entering farming. Subsidy sometimes is difficult to decide on who may receive a subsidy and the government has poor information about the service and how much to subsidize.

Advantages of a System of Subsidies from the Point of View of Consumer

The government provides funds for research and loans at favorable rates and repayment terms for the poor families. Datuk Seri Najib Tun Razak adds 1Malaysia book voucher (Figure 1) for students from research institutions, universities previously from RM200 to RM250. Student who has been registered as higher education students need to write their name on the voucher to avoid the issue of abuse in voucher dealings. Its main purpose is to allow the higher education students better access to books and stationery that would help ease their burden throughout their studies. (New Straits Times Online) Datuk Seri Najib Tun Razak also announced a half-month bonus, the civil service and the income tax is reduced by one percentage point to RM50, 000 of taxable income. (Budget 2013: Tax breaks, affordable housing and cash for the needy, The Star Online)

Disadvantages of a System of Subsidies from the Point of View of Consumer

It had been stated that the rich and the biggest beneficiaries of the enterprise, rather than the poor. The sugar factory has informed retailers to raise sugar prices by 20 cents. This price reduction is always slow, but when it comes to raising prices, which is lightning fast. According to New Straits Times, it had mentioned that sugar subsidy reduction should be no excuse

for businessman to increase prices of goods. When price of sugar rises, the quantity demanded of sugar will fall and it will make a movement down along the demand curve.

It has been shown in the graph above. The price of sugar in Malaysia is amongst the lowest if compared to Singapore, Philippines, Thailand, and Indonesia. Therefore, the cost of ingredients of coffee is cheaper if compared with other. Coffee and sugar are considered as complementary goods. If the price of sugar falls, the quantity demanded of sugar will increase, and therefore the demand for coffee will increase too. It can be shown in the graph below.

Subsidizing diesel and petrol have been smuggled and abused. In “The Star New Online” which stories by M. Stuart, fisherman had been caught are selling subsidized diesel and petrol to others or using it for their personal use. Some of them just sell the fuel at higher price in order to earn more profits. In the news, a fisherman Mohd Rokbi Daud was unsatisfied with the current system in Fisheries Development Authority of Malaysia (LKIM). He said that he goes to sea everyday but does not get any fish because of the bad weather. Some of the people just claim for the subsidized fuel but they do not go to the sea to catch fish and just sit down to get the subsidy that offered by the government. Those fisherman who really struggle to survive because of poor catch; they really need the subsidy in order to survive their family. Therefore, government needs to know who the real fisherman and give the subsidy to the right one. Rich people with big cars can enjoy more subsidies for fuel compared to the poor small car. Many off-road vehicles and four-wheel drive vehicles also consume diesel. The rich and the poor have to <https://assignbuster.com/disadvantages-of-a-system-of-subsidies-economics-essay/>

pay the same tax rate. The poor cannot afford the luxuries products, but the rich people may have bought a lot of luxuries things. Eventually the subsidies are given to the rich rather than the poor. From 2010 to July 2011, the government had allocated for various subsidies and assistance, including the establishment of the KRIM, the Menu Rakyat 1 Malaysia and the 1 Malaysia clinics that the rich one can also be enjoyed these benefits. (Alex Wong CPA Australia Melbourne University, 2012)

Appendix:

Figure 1 : 1Malaysia book voucher

ASSESSMENT CRITERIA (30%) :-

No.

Evaluation of Written Work

Raw Marks

Weightage

Final marks

1

Demonstration of Knowledge

Demonstration of knowledge and understanding of the topic & assignment

0-2. 5 – poor, out of topic, no understanding of topic; 3. 0-5. 0 – average, general discussion of topic; 5. 5-8. 0 – good, clear understanding, 8. 5-10. 0 excellent, deep understanding of topic,

/25

2

Good reasoning and critical analysis

Clear line of reasoning. Argument is sound and substantial, with significant elements of originality. Ability to identify and use concepts and theories studied to rationalize his/her opinions. Evidence of critical appreciation and evaluation of relevant theory and research and a systematic and creative attempt to relate it to the topic.

0-2. 5 – poor,; 3. 0-5. 0 – average, 5. 5-8. 0 – good,; 8. 5-10. 0 excellent,

/25

3

Clarity :

The whole thread of the argument is clear. The structure is very clear. Shows coherence. Able to and integrate material from other sources in a clear manner.

0-2. 5 – poor,; 3. 0-5. 0 – average, 5. 5-8. 0 – good,; 8. 5-10. 0 excellent,

/20

4

Evidence of Wide Range of Readings

Shows evidence of having read widely by using arguments and facts from various and relevant sources

0-2. 5 – poor,; 3. 0-5. 0 – average, 5. 5-8. 0 – good,; 8. 5-10. 0 excellent,

/20

5

Overall Presentation :

Grammar, style of writing, structure, spelling, referencing and appendices.

0-2. 5 – poor,; 3. 0-5. 0 – average, 5. 5-8. 0 – good,; 8. 5-10. 0 excellent,

/10

Total 100%

/100

Total marks for this component is 30%

/30