

# What determines the distribution of income between wages and profits

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Introduction Profit is the balance amount after paying for many expenses of fixed and varied nature. Some of these expenses are - the production cost, marketing cost, and other sundry expenditure of fixed nature such as electricity, water supply and statutory taxes. The expenditure on wages forms part of production cost. A capitalist can earn more profits if the wages paid are low for any reason. One of the reasons for low wages could be increase in the price of raw materials such as steel due to a law passed by the government.

Hypothetically, if the government industries withdraw privatization from certain industries such as Cinema theatres than the cost of a movie ticket would reduce. Consequently, the wages paid to the workers in the cinema theatre would reduce. An opposite scenario in this context would be that if the public transport is privatized, the wages paid to the bus conductors would possibly increase.

Above facts reveal the following factors that would determine the distribution of wages:

1. If the cost of production decreases, wages can be high and if the cost of production increases, wages can be low. Profits can be increased by paying low wages.
2. The bargaining power of the workers is another significant factor that plays a role in the determination of distribution of income between wages and profits. The point to be noted here is that bargaining power of the work force can be more important than their productivity.
3. Profits not only depend on the macro factors such as the country's

economy but they also depend on the cost of production which can be company/industry specific. For instance, some companies who believe in excellence would spend a lot on innovation, resulting into low cost of production and high profits. This could also result into high wages.

4. The wages paid would also depend on the size of the company and industry. If the company is growing in size, the wages paid would be high; similarly wages are of growing nature in sunrise industries. Companies who have maintained oligopoly in the market can also afford to pay high wages.

5. Fields such as Information technology and Finance are of revolutionary and innovative nature, so we find wages to be very high in these fields.

Similarly companies in any industry such as biotechnology, weapons manufacturing and aerospace that are of innovative nature can afford to pay high wages to the workers.

6. Another important factor is the distinction between skilled and unskilled workers. Skilled workers certainly get paid more than unskilled workers. The point to be noted here is that skilled workers enable the company to make more profits.

7. Referring to the above point again, we can also conclude that skilled/unskilled workers working in the specialty and niche areas will be paid more than other workers who are working in more common areas. For instance, workers in the diamond industry may be paid more due to their skills. There can be exceptions such as Sales profession in a highly populated country like India, where we can find millions of workers doing the same sales job with/without standard qualifications. Still sales professionals are paid high because they generate direct revenue for the company.

8. Another important factor is the country's economy - A strong economy like U. S. A can offer better employment opportunities and wages. (Here, I am talking about the pre-recession era).

9. To add to the point about the country's economy - Some countries flourish because of availability of natural resources. For instance, Gulf countries have flourished and become powerful due to the oil they produce. Again, high wages is a common phenomenon for such countries like Saudi Arabia and Kuwait.

10. Some companies may not require a big number of workers. For instance, budding entrepreneurs who decide to do freelancing in the internet industry. This becomes a one man show and the question of paying high or low wages may not arise. We can see this concept adopted by entrepreneurs who strategize their business model. For instance, a business man would offer internships and get live work done from the students. A stipend may be offered to the student which is relatively low compared to the income of full-time employees.

### Conclusion

We can conclude that wages do not always correspond to the productivity of employees.

Determination of distribution of income among Profits and Wages can relate to many factors other than the cost of production such as;

1. the country's economy,
2. legislative structure for a given industry in a country,
3. a certain strategy of the capitalist that will permit paying of low wages, such as importing technically advanced machinery.

4. Bargaining power of the work force
5. Power of innovation for companies such as Microsoft and Apple
6. Gift of Natural resources for a specific territory, such as Gulf region
7. Countries and companies that are world-leaders due to factors such as the first-mover advantage in the world economy. An example would be a country like America and a company like Microsoft.
8. Growing companies and Sunrise Industries
9. Innovative industries such as Aerospace, Biotechnology and Information technology
10. Workers skilled in niche areas and specialized industries such as workers in diamond industry and weapon manufacturing may earn more.
11. Workers that earn more due to the profession that they choose. For instance, a book writer may earn more than an article writer.

Diagram: Determination of distribution of income between Profits and Wages