Distribution and Utilization of Incomes as a Source of Economic Growth of an Enterprise

Student's Name

Institution of Learning

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The distribution and utilization of incomes are of extreme importance to businesses and households, as these practices determine the financial health of organizations and ensure their economic growth. At the national level, income is distributed between individuals and the main factors of production such as land, labor, and capital. Differences in wage differentials, collective bargaining, and market segmentation significantly affect how incomes are distributed and used in a modern industrialized economy. Distributing and using incomes according to common principles help to avoid financial crises and wealth accumulation occurrences that work against private businesses. Thus, the proper distribution and utilization of incomes serve as a source of economic growth of an enterprise because those processes increase its purchasing power, create safe investment opportunities, decrease the risk of wealth accumulation, and fuel economic and financial stability.

The well-managed distribution and utilization of incomes strengthen the ability of low- and medium-income companies to stay healthy and raise capital. Businesses use a three-way income distribution model according to which incomes are divided into corporate profits taxes, dividends, and undistributed corporate profits (Sherman, 2016). Corporate profits taxes are incomes that are subtracted from national income in the derivation of personal income and are paid to shareholders (Sherman, 2016). Dividends are incomes that are earned by the factors of production and members of the household sector and are thus part of national income. Undistributed corporate profits are incomes that are earned by shareholders but not received, meaning that earned money is spent on sustaining a business by developing technological processes, expanding its scale, or entering new markets. Corporate businesses should distribute retained earnings between employees and shareholders in a way that benefits both of them. However, the lion's share of income should be spent on business improvement, including hiring, outsourcing, and marketing to be able to work at a higher level and gain more income in the long run.

Properly distributed incomes fuel the economic and financial stability of enterprises in all sectors. In accordance with Vo et al. (2018), the effective distribution and utilization of incomes increase the ratio of capital-output, wage share, and employment that contribute to the increase in the national GDP ratio. As a consequence, labor productivity gets higher, allowing enterprises to take advantage of the skilled labor force. Also, the government contributes to the distribution of incomes between the factors of production using a tax system. For example, the state can impose a larger share of the tax burden on high-income earners to avoid wealth accumulation in the hands of a few enterprises and sustain income equilibrium (Sherman, 2016). Progressive income taxation is an effective means of distributing incomes between businesses of all sizes in the industrialized economy.

The proper distribution and utilization of incomes between land, labor, and capital eliminates the opportunity for large corporations to concentrate incomes and thus increases aggregate demand and sustains economic growth. According to the profit-led growth approach, enterprises should include a profit margin ratio and the degree of capacity utilization in the investment function to distribute and utilize incomes within companies (Arestis & Troncoso, 2017). The distribution and utilization of incomes that benefit employees and shareholders increase the profitability of corporations and thus sustain their economic growth. As Arestis and Troncoso argue, wage equality policies inside organizations bring the efficiency and stability of business operations, labor market flexibility, and a more productive, stable, and dynamic economic environment that eventually benefits workers (2017). The International Labor Organization attempts to reduce wage inequalities to establish fair working conditions and enable enterprises to provide higher and sustained economic growth. Hence, with the fair distribution of incomes, companies are more prepared for financial and economic crises.

Distributing and using incomes in a right manner, corporations boost the investment and economic growth of their businesses, thereby contributing to national economic stability. It is a well-known fact that the rising influence of wealthy and stagnant incomes of the poor leads to significant financial crises. According to Dabla-Norris et al. (2015), financial crises directly hurt the short- and long-term economic growth of an enterprise by intensifying leverage, overextending credit, and financial deregulation. Meanwhile, the equal distribution of incomes among stakeholders reduces risks for internal and external investors as well as encourages small- and medium-scale entrepreneurs to take initiative and improve their marketing, finance, and managerial ability. The economic growth of enterprises is determined by income distribution, investment, and capitalist consumption since a propensity for consuming wages is higher than a propensity for consuming profits (Arestis & Troncoso, 2017). Thus, by distributing and utilizing incomes fairly, organizations increase workers' consumption, financial assets, and investment.

Otherwise, poorly organized processes of income distribution and utilization lead to income inequality that challenges businesses in emerging and advanced markets. For example, the inequality of financial outcomes that is measured by income, wealth, or expenditure entails large production costs for enterprises (Vo et al., 2018). Reducing income inequality is a great challenge for the state, as it concerns both the stock of wealth and the flow of income. The skewing of income distribution may have an adverse effect on investors' incentives to save and invest in low-income industries that need investment to a significant extent (Vo et al., 2018). That is why less efficient companies cannot adjust their production capacity to sales, increase their profit margin, or raise their competitive advantage in the market. In such a context, there is a direct relationship between wage share, functional income distribution, and profit margins in an economy of big companies.

In addition to that, income disparities resulting from unequal income distribution undermine internal profit accumulation by increasing the risk of investment when companies need external financing. As Arestis and Troncoso (2017) state, income disparities cause negative changes in profit and the stock of capital that in turn affect a firm's production capacity utilization. For example, workers who encounter income disparities fight for the higher purchasing power of their salaries by supporting laws for minimum wage, taking part in labor unions, and advocating for employment protection (Arestis & Troncoso, 2017). Being dissatisfied with their incomes, employees show worse performance and productivity results that have a negative effect on a business's economic growth. Considering income disparities from an economic perspective, companies should verify the impact of income distribution and utilization on a firm's economic growth before developing and establishing income distribution policies and taking financial approaches.

In an open economy, the relationship between income distribution and capacity utilization is highly complex since a higher purchasing power of workers' wages can be linked to lower competitiveness of an organization as a whole. In particular, a higher purchasing power of employees' wages can generate less net income and thus negatively affect a firm's production rate and total profit (Vechsuruck, 2017). As a consequence, the impact of a higher purchasing power of wages on consumption would be lower and could cause both a reduction in net income and the lower use of productive capacity due to a lack of investment. Therefore, in an open economy, organizations can experience a high wage share and a low economic growth at the same time, provided income is properly distributed among the main factors of production. Taking the profit-led growth approach to income distribution and utilization, enterprises promote their opportunity to increase their productive capacity, optimize income utilization, and sustain their economic growth.

As a result, there is a positive relationship between profit-led income distribution and utilization and the economic growth of an enterprise, since properly distributed earnings increase businesses' real purchasing power, create safe investment opportunities, decrease the risk of wealth accumulation, and fuel economic and financial stability at the national level. As a growing body of literature shows, the unequal distribution and utilization of incomes lead to unequal growth experiences of all enterprises in a country. Wage disparities resulting from improper income distribution undermine internal profit accumulation, decrease investors' incentives to save and invest in low-income industries, and undermine businesses' economic growth. Organizations should distribute and utilize their incomes effectively while taking into account economic conditions, the degree of capacity utilization, and the level of profit. Properly distributed and used incomes increase the profitability of investment, enhance operational capacity, and promote the economic growth of an enterprise.

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