

# IMPACT OF CORPORATE POWER ON CONSUMPTION, DEBT AND INEQUALITY: POLITICAL-ECONOMIC MODEL OF CCC

FRANCI PORENTA<sup>1</sup>

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**ABSTRACT:** *The literature is abundant with studies about income inequality, consumption, public and household debt but scarce with studies about the corporations and their corporate power. This paper shows that corporate power influences increased consumption in order to secure its investments and provide sufficient demand. Secondly, rising consumerism influences growing household and public debt with multiple transmission mechanisms that work simultaneously and reinforce each other. Thirdly, growing household and public debt increase inequality, disabling the government to invest in education, health care, infrastructure or social transfers, and preventing the people from investing in their education or increasing their savings and, consequently, their wealth and financial independence. Finally, the inequality causes an increase in corporate power. People who are impoverished and thus unequal in comparison with the production owners and capitalists are also weaker in the bargaining process. They cannot improve their position, so the corporate power rises completing the cumulative and circular causation.*

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**Keywords:** *corporate power, consumerism, debt, cumulative circular causation, inequality*

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## INTRODUCTION

Is growing corporate power leading to consumption driven by conspicuous consumption and consumerism, rising public and household debt, economic inequality and unsustainable growth? There are several empirical facts about the increased income inequality in the past 40 years (OECD, 2015), rising public and household debt (Cecchetti, Mohanty & Zampolli, 2011; OECD, 2015), increased consumption (OECD, 2015) and surging corporate power (UNCTAD, 2007), but only a few studies examine the causations between those variables.

Empirical studies have shown that there is a long period of flat or stagnant wages (Mishel & Shierholz, 2013), which only reinforces economic inequality. Inequality is further increasing due to a decrease in taxes (Fieldhouse, 2013) and there has been a strong

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<sup>1</sup> University of Ljubljana, Faculty of Economics, PhD student, Ljubljana, Slovenia, e-mail: franci.porenta@siol.net

correlation between the cuts in top tax rates and the increases in top 1 per cent income shares since 1975 in 18 OECD countries, but the top income share increases have not been translated into a higher economic growth (Piketty & Saez, 2011). Another sharp distinction is the wealth and assets owned where the bottom half of the global population owns less than 1 per cent of the total wealth. On the other hand, the richest 10 per cent holds 86 per cent of the world's wealth, and the top 1 per cent alone accounts for 46 per cent of global assets (CSRI, 2013). Piketty and Saez (2003) have also shown that, in the US, the share of total pre-tax income accruing to the top 1 per cent has more than doubled since the 1970s. The consequences of high inequality are also slow economic growth (Ostry, Berg & Tsangarides, 2014), political instability (Cummins & Ortiz, 2011), and higher unemployment (Galbraith, 2012).

The literature is abundant with studies about income inequality, consumption, public and household debt, but scarce with studies and analyses about the capital and corporations and their corporate power. This paper examines the corporate power, as well the causes and consequences of other variables and other multifold factors, using a holistic approach. Such multi causal approach starts with the analysis of two authors, Thorstein B. Veblen and John K. Galbraith. In their economic analysis, they worked with evolutionary and institutionalist approach. Veblen (1899) constructed the term conspicuous consumption, which is based on evolutionary principles that are driven by the human instincts, mainly by emulation and predation, where people are trying to impress others, gain advantage and signal their status.

The notion of conspicuous consumption was also used by Galbraith when explaining the dependence effect. His next in-depth insight was the effect called revised sequence, where the consumers are not actually controlling the producers but vice versa (Galbraith, 1967). Galbraith further argues that corporations become so strong that they eventually take control over the competitors, workers and the market. They spread control and influence into politics, government, and public opinion. The worker who is at the same time a consumer becomes indoctrinated by privately owned media and corporate marketing, buying many things that he or she does not really need. The result is a huge production of unnecessary and unproductive private goods, whereas, on the other hand, there is a lack of public goods. Consumerist consumption becomes the foundation of economic growth. However, the problem is that real wages are stagnant and in a sharp contrast with the rising productivity and profits, so the workers, who are at the same time also the consumers, need to borrow money in order to maintain the standard and social status demanded by the society, the media and marketing.

Another important factor is the consequence of stagnation of mature economies, where corporations are forced to seek new markets to invest their surpluses, and where even the new technologies markets are insufficient. As a result, the financial liberalization and globalization have been imposed, and the financial sector has strongly overgrown the real sector, which results in many problems for economy and society. Financial sector also gladly credits the consumerist consumption in order to maintain demand and economic growth. Due to stagnant wages, this consumption is largely driven by borrowing. The debt

is mostly consumptive and therefore not self-liquidating. It is not an investment expecting some future cash inflow and liquidating itself with future revenues. Governments also decrease taxes for top incomes and corporate revenues and consequently worsen their balance of payments. Because of rising inequality and macroeconomic instability, public and household debts also rise in order to maintain the consumption growth. This leads to boom-bust credit cycles and eventually to a chronic weakness of economic demand.

The consequences of rising public debt, which also rises due to socializing private bubble busts, are less effective countercyclical policies. Expansionary fiscal policy by spending more on infrastructure, education, human capital and health care is constrained because of the rising public debt. Expansionary monetary policy with lower interest rate and quantitative easing, on the other hand, even reinforces inequality because of lower returns to the savers, whereas at the same time, lower costs of borrowing increase profits for corporations and stock market investors. Growing income inequality also leads to workers' inability to adapt to technological changes, including skill biased and capital biased changes that result in additional unemployment.

The paper extends the existing literature with an analysis of corporate power and its influence on consumption. Using descriptive analysis together with the causal inference and combining Darwinian evolutionary principles, anthropology, psychology and sociology with an economic analysis, we show that corporations are keen to exploit one of the most powerful human instincts of the reproduction and the display of the social status. Using holistic approach, we build a political-economic model based on logical observation, causes and consequences, as well as empirical data. There is a clear notion of a cumulative and circular causation (hereinafter: CCC) of the main identified variables. Growing corporate power is leading to consumption, driven by conspicuous consumption and consumerism, rising public and household debt, economic inequality and unsustainable growth.

The paper begins with building a political-economic model by constructing its elements of the process of causation. It proceeds with circular causation and the definition of the main system variables, and concludes with the process of cumulative and circular causation. In the end, it discusses the main findings.

## POLITICAL-ECONOMIC MODEL OF CCC

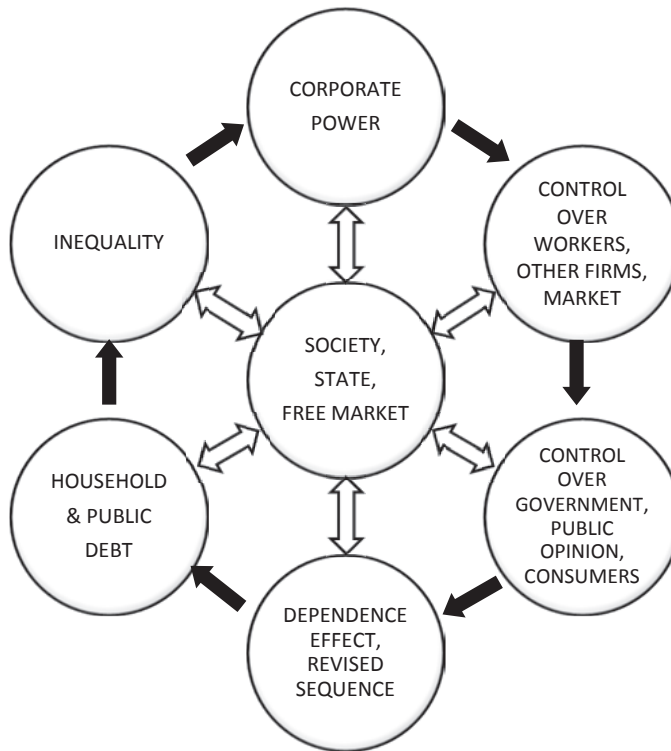
### 1 ELEMENTS OF THE PROCESS OF CIRCULAR CAUSATION (CC)

Political-economic model of CCC has three stages or processes: first, variables are interrelated in a sequence of causations. Second, the end of the sequence also influences the starting point of the sequence, making thus a circular causation (Figure 1). Third, variables magnify and increase from one circle to another, causing a cumulative and circular causation (Figure 7). This leads to a non-equilibrium process. The consequence is a CCC of variables which form a system that is strengthened over time. Variables rise in

time and economic implications behind this process show that such development cannot be economically and socially sustainable.

The connection of all important factors or variables into a sequence is shown in Figure 1. Variables can be described as building blocks of the sequence, forming a process of the circular causation. Each variable influences the next one. We will elaborate on each of them.

Figure 1: The process of circular causation (CC)



'Society, state and free market' is a nexus of the entire system and is a starting and crossing point which determines all other factors and variables in terms of how they are developing, forming the social and legal frame, and institutions. Each society forms its own original background and starting point through its own history and evolution. The evolution and change take a different path in each of these diverse societies, thus forming different institutions. When reaching the most recent stage of the evolution, the capitalism, there are clearly some different outcomes. There is no single capitalist system in the world, or more precisely, there are many different capitalist systems. What distinguishes them, are the institutions.

The society determines what kind of a state form suits it best in terms of its needs and development stage. Accordingly, the economic system is formed. In some countries, the state is more interlinked with the economy and its market than in others. The variety goes from state capitalism, where the state interference into economy is very strong, to the so-called free market systems, with the minimum state interference into economy. All these characteristics determine how the participants in the economy will evolve. Capitalism with its contradictions and society with its institutions set the market conditions, in which the participants can work and compete between themselves. The interests of all participants are different and sometimes even confronting. However, since the participants are mainly in pursue of their own private interest, the state has to regulate and monitor the entire market and economy in order to provide such legal framework and working economy that the goal of society's well-being is pursued.

### **1.1 Corporate power**

There is a clear process of concentration and centralization of capital and corporate power. Corporations increase their economies of scale and scope, their international mobility, assets owned and the political power. They succeed to lower taxes, lessen the regulations, increase subsidies and grants from governments, and consequently become too big to fail. Thus, imposing on society to bail them out when necessary, corporations set the norm of privatizing the profit and socializing the loss.

Corporations take advantages over the competition because of better organization and management, higher efficiency and productiveness, technological edge, and economies of scale and scope. However, with the rise of the firms and their power, market shift more and more towards imperfect competition. When imperfect competition exists, the marginal productivity theory of distribution fails to hold and labour is exploited by powerful firms (Robinson, 1953). We do not have competitive markets with a large number of firms with sovereign consumers, but rather non-competitive markets with large firms that control the markets (Galbraith, 1952; 1967). Nevertheless, as Pressman (2007) argues, firms cannot take the chance that after undertaking expensive investment there will be no demand for their goods. They are eliminating the uncertainty of market forces by controlling it through vertical integration, developing diverse products, dealing with the consumer taste changes and long-term contracts between producers and suppliers. However, and probably the most important, by spending money on advertising, firms can actually control consumer tastes.

The next indicator of corporate power is its influence on governments through political donations and direct lobbying. As shown by CRP (2014), the US federal lobbying expenses in 2010 were about \$3.55 billion, up 46 per cent from five years earlier and up 126 per cent since 2000. With about 13,000 registered lobbyists, this means that there are more than 24 lobbyists for every member of the Congress. Economic and political power of the world's top 200 corporations was examined by Anderson and Cavanagh (2000), who argue that the widespread trade and investment liberalization have contributed to the climate in

which dominant corporations enjoy increasing levels of economic and political clout that are out of balance with the tangible benefits they provide for the society. Such growing private power has enormous economic consequences, but the greatest impact may be political, as corporations transform economic clout into political power.

The world's biggest firms are transnational corporations (hereinafter: TNC). Internalization is the main determinant for the TNCs along with their pursue of optimal allocation of resources. Costs are minimized with their search for the countries with low labour costs, whereas the profits are maximized in countries with low taxes, tax evasions, tax avoidances and subsidies. Governments are actually competing for TNC's investments by changing their laws regarding the minimum wage, subsidies and taxes. Incentives for new employments make governments even more complied with TNCs' demands. Additionally, they influence the international trade agreements according to their interests. All these factors make TNCs very powerful. Nevertheless, the development of big corporations is also positive due to their vast investments and improvements of technologies and other innovations.

TNCs are actually interlinked in a very complex way because of which it is hard to see the whole picture. Consequently, there is a lack of transparency or some informal agreements or illegal cartels. In the reality, TNCs are even more connected due to various business agreements, owning of each other's shares, contracted associations, etc. The study of complex systems conducted by Battiston, Glattfelder and Vitali (2011) has shown a core of 1,318 companies with interlocking ownerships, where each of them has on average 20 connections to other companies. Having 20 per cent of global operating revenues, they own the majority of the world's large blue chip and manufacturing firms through their shares, adding thus further 60 per cent of global revenues. There is also a super-entity of 147 even more tightly knit companies, where all of their ownership is held by other members of the super-entity, which controls 40 per cent of the total wealth in the network. Actually, less than 1 per cent of the companies are able to control 40 per cent of the entire network. This super-core consists mostly of big financial corporations.

Although no common or standard measurement of corporate power exists, there are some available metrics as elaborated by Roach (2007), such as corporate economic statistics, industry concentration ratios, labour union densities and corporate ability to reduce the taxes or acquire government subsidies. The former, elaborated by UNCTAD, seems to be the most viable measurement choice of rising global corporate power.

Corporate power is actually evolving from the properties of capitalism and its contradictions, namely, monopolies or oligopolies. The capitalist system has the tendency to concentration and centralization of capital. This is particularly typical of the 20th century, with the prevalence of the major international corporations in global economy. The consequence is an exclusion of the effective price competition. Monopolies change the prices only in one direction, upward (Baran & Sweezy, 1966; Foster & Magdoff, 2009). Price competition is replaced by informal agreements and price tracking of the specific

industry leader. With such exclusion of the price competition in the economies, one of the fundamental premises of capitalist economies was demolished.

Competition resumes in line with the productivity increase and the production costs decrease. This is also done at the expense of a stall or stagnation of real wages. As a consequence, a large and growing investment surplus emerges and encounters reduced investment markets. Investment markets are reduced partly due to the maturity of the economies and partly because of the increase in the economic inequality, which in turn has a negative impact on consumption.

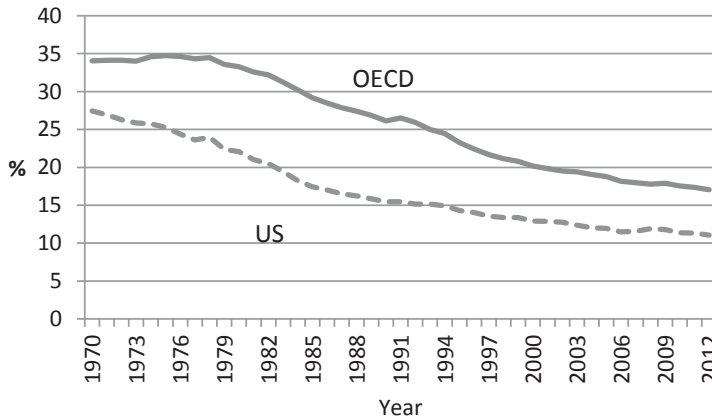
Corporate power, financial and monopoly capital for investment of their surpluses also invent new financial instruments, financialization, liberalization, globalization and other leverages of influence. Indoctrination of the consumer, with very sophisticated marketing techniques is one of the main business activities of corporations. Additional leverage is also the influence on public opinion, exercised by 'opinion leaders' and 'neutral' experts who advocate corporate interests in a very sophisticated way.

The next leverage is on politics, which becomes appropriate in times of financial and economic crises, when private firms and banks call for help and bailouts from the governments, thereby dismissing before propagated firms' mantra '*laissez faire*'. Their actual premise is the privatization of profits and socialization of losses. Therefore, the moral hazard is rewarded. When the capital investments become insufficient, they put pressure on governments for further liberalization or the increase in leverage ratio of the credit economy, allowing workers' and consumers' higher indebtedness. All this is done for further expansion of capital. With such debt leverage drive, the economy can maintain the aggregate demand for a while, but it will inevitably come to a burst of a bubble economy. Such economy is clearly not sustainable.

## **1.2 Control over workers, other firms and market**

Because of their decreased power, workers' position in the bargaining process with the employer regarding the wage is weak. Workers' collective bargaining power is also getting weaker over time, as it can be observed in Figure 2, where the trade unions density decreases in last 40 years. In the US, the trade union density level is lower than in the OECD countries.

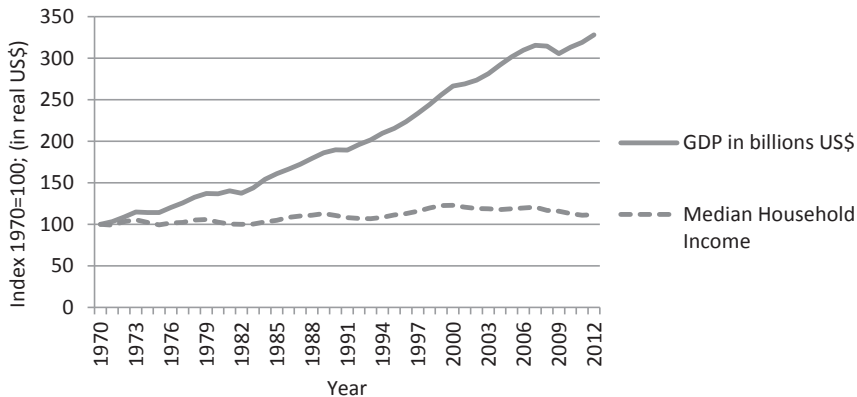
Figure 2: Trade Union density in the US and OECD countries



Source: OECD, *OECD. StatsExtracts*, 2015.

In the long term, a worker has to accept a lower wage or be satisfied with the existing one, without expecting a rise in line with the firm's productivity rise or profit. The growth of the median household income (hereinafter: **mhi**) is actually lower than the growth of GDP (hereinafter: **g**), in the US in last 40 years (Figure 3). The growth of GDP is then in turn lower than the rate of return on capital (hereinafter: **r**), (Piketty, 2014). We can observe a widening gap in the period from 1970 to 2012. Median household income stalled in that period, whereas GDP grew significantly. There are immense implications of the fact that **mhi** < **g**. It means that people's wealth is stagnating. Their income growth does not match the pace of the GDP growth, which causes the deterioration of their living standard and forces them into borrowing. This fundamental inequality **mhi** < **g** < **r** also means that workers' bargaining power towards employers diminishes.

Figure 3: GDP and median household income in the US (1970–2012)



Source: US Bureau of Economic Analysis, 2015b; US Census Bureau, 2015.



Alternatively, the worker can leave the current job, but the job market is volatile. On the one hand, there are fewer firms because of the process of concentration and centralization. On the other hand, the fact that there are many unemployed workers inflicts additional pressure on those still employed. The higher the unemployment rate is, the bigger the pressure on the employed workers is and the lower the amount of remuneration for which they are prepared to work is. Firms are always keen to take advantage of that fact. They always exploit unemployment as leverage in the bargaining process as long as they can compensate lost demand from unemployed consumers with the possibility of incurring debt for the consumption. As a result, they have subordinated and loyal workers who are afraid of losing their jobs.

Large and powerful firms generally control other smaller and weaker competitors (Baran & Sweezy, 1966; Foster & Magdoff, 2009). Because of their market power, these large firms set the market prices of goods and services and become the price leaders in their sector or market. Such price leadership can leave the competition with little choice but to follow the leader and equal the price if they want to keep the market share. Competition may also opt to lower their prices in order to gain some additional market share. Market leaders usually use the uncompromising strategy of lowering their prices in the short term due to their operating efficiency. This forces smaller competitors to lower their prices, too, in order to retain market share. As these smaller competitors usually do not have the same economies of scale and scope as the price leaders, their effort to equal the leader's prices may inevitably account for losses, forcing them to close the business.

The control over workers and other firms also leads to the control of the market. Markets become less competitive with a smaller number of firms and shifting from perfect competition markets towards monopoly or oligopoly markets with only a few bigger firms which usually even collaborate by making mutually beneficiary agreements or forming informal cartels. Since these powerful firms acquire enormous economic power, they broaden their influence into politics and government, directing future policy and law decision in their favour. This also explains why several state regulators do not act or act with a considerable time lapse against such cartels. These large firms or corporations aim to control the market in order to maintain and reinforce their influence and economic power, and broaden their influence even further into politics, government, public opinion and society.

### **1.3 Control over government, public opinion and consumers**

When corporations acquire the control over workers, other firms and market, they expand their influence and control into politics, government, public opinion and consumers. Corporations first try to obtain the control inside the company, then in the nearest environment and after that in the wider environment. The process of control goes from micro to macro environment.

The revenues of TNCs are big and they have vast resources at their disposal. Their influence on all aspects of society is immense. In the US, for example, the link between

the private and the public sector is so strong that the country has almost shifted from parliamentary democracy towards corporate democracy. For example, the latest decision of the US Supreme Court that individuals are free to sponsor politicians only leads to further interdependence between rich individuals or capital and politicians. A democratic system in which the politicians are mostly elected due to the amount of invested or raised capital cannot be truly effective in the sense of common good and social well-being. Such a system favours capital. And capital means corporations and rich individuals who influence and control the legislation, politicians and government according to their vested interests.

The next in the line of controlled is public opinion. Public opinion is created by various factors, with both the private and public media. Private media are already in control and ownership of corporations, whereas public media are normally controlled by some independent bodies that are elected by parliaments or delegated by governments. Members of a parliament or government are politicians who are elected with the help of capital. The circle of private influence is thus closed. Corporations and private capital can influence both, the private and public media through various techniques, from supposedly independent experts explaining their views through the media, to influential opinion makers. This all forms public opinion in favour of vested interest of corporations and private capital.

Such domination by the interests of influential groups over major social and political decisions clearly asks the question regarding the meaning and the power of democracy in today's society (Laperche, Galbraith, & Uzunidis, 2006). Nevertheless, in spite of the evolving conflict between shareholders and managers, on the one side, and globalized technostructures and potentially corrupt corporations, on the other side, corporate behaviour remains very rational. With the use of transparent corporate communication, which also represents an important element of the dynamic competitive process and a powerful tool for the improvement of firms' performance (Lah, Sušjan, & Redek, 2016), corporations succeed in their goal. Control over government, public opinion and consumers.

The control over consumers is the most important and one of the biggest expenses for corporations. In 2005, corporations spent 230 billion dollars on advertising their products in the US media, which is approximately 1,000 dollars per citizen. The US advertising industry accounts for 2.2 per cent of GDP, absorbs approximately 20 per cent of firms' budgets for new investments, and uses 13 per cent of their corporate profits (Molinari & Turino, 2013). For controlling and influencing consumers, corporations use their economic power, the media, government and public opinion. Their internal departments of marketing use complex strategies, including all usable fields of science, from mathematics to sociology and psychology.

As shown in the empirical work by Benhabib and Bisin (2011; 2002), advertising directly affects the consumers' preferences. Corporations exploit their power through advertising in order to create new and unnecessary consumers' needs. Individuals' preferences,

which are in part a social phenomenon, are influenced by advertising. Such advertising has a relevant impact on aggregate consumption and through consumption on other macroeconomic aggregates (Molinari & Turino, 2013). The effectiveness of corporate advertising in enhancing the demand is also supported in a comprehensive empirical survey by Bagwell (2005) and by Vakratsas and Ambler (1999). How influential and persuasive the marketing is and how this can lead towards unsustainable consumption, is also shown by Mont and Power (2009). In addition to the increasing pressure and the sheer volume of the advertising industry, there are constant changes in advertising messages and in the way how they are transmitted to the changing target audience.

The most important fact is that the consequence of increasing corporate power is the shift of power from consumers to producers. Corporations are those who control the consumers' decisions through very complex spectre of influences and indoctrination. They impose the taste, fashion, social wants and other factors of consumer decision making. Corporate machinery has the entire spectre of elements in order to persuade the consumers that their choices are reasonable, ranging from the media, experts and opinion makers. The most important influencing factors include the so-called dependence effect and revised sequence, which is explained in more detail in the next part of the chapter.

#### **1.4 Dependence effect and revised sequence**

Contrary to the original sequence, where the economy is composed of competitive markets ruled by the decisions of sovereign consumers, and where the consumers control the producers and the production process with their demand, revised sequence (Galbraith, 1967) actually recognizes that this control is in reality reversed and producers have power over consumers. This power is particularly exercised with the help of marketing and advertising.

Revised sequence would not have such an effect without the presence of another effect, the so-called dependence effect. Galbraith (1958) defines the dependence effect as a concept that includes passive and active aspects. The passive aspect is the process of emulation whereby social norms and localized cultural comparisons induce consumption patterns, i.e. the social pressure to 'keep up with the Joneses.' The active aspect refers to the contriving of specific social wants and, equally important, the creation and reproduction of a consumer culture. According to Galbraith, the American demand for goods and services is not organic; it is not internally created by a consumer. Apart from the basic demand, such as food, clothes, and shelter, a new demand has been created by advertisers and the 'machinery for consumer-demand creation,' which benefits from increased consumer spending. This exuberance in private production and consumption pushes out public spending and investment. Galbraith ties consumers' debt directly to the process of want creation.

Conspicuous consumption is understood as spending money and purchasing goods and services in order to display one's own status. By doing that, people maintain or attain

their social status and, in some cases, even provoke envy. Conspicuous consumption was first introduced by Veblen (1899), who describes the behavioural characteristics of the *nouveau riche*, i. e. the social class that emerged as a result of the accumulation of capital wealth during the Second Industrial Revolution. Human instincts of emulation and predation play an important role. People attempt to impress others and seek to gain advantage through conspicuous consumption and the ability to engage in conspicuous leisure.

Today, conspicuous consumption is more a socio-economic behaviour which is particularly common in poor social classes. They display luxury goods or services in order to psychologically combat the impression of relative poverty. As Charles, Hurst and Roussanov (2007) have shown, conspicuous consumption and the visible luxury does not serve to signal the owner's status as affluent, but to avoid the negative perception that the owner is poor. The truth is that no one wants to be perceived as poor. All psychological mechanics of conspicuous consumption in a consumer society show that conspicuous consumption is a psychological trap, in which a person seeks a superior social status or the possibility to at least maintain the existing one and eliminate the stigma of being poor or the deterioration of one's social status.

Evolutionary psychology also explains another view of conspicuous consumption as a costly signal or a handicap principle (Zahavi, 1997), demonstrating a person's good socio-economic quality and his or her intention to attract economic coalition partners or sexual mates, with the aim to improve one's own status and obtain the chance of reproduction. Iredal and van Vugt (2011) also argue that altruism may have evolved because it signals underlying qualities about the individual that are important to others and may hence increase their fitness through prestige and mating opportunities.

Miller (2009) uses Darwinism to illustrate how marketing has exploited our inherited instincts to display social status for reproductive advantage. In our modern marketing dominated culture, 'coolness' at the conscious level and the consumption choices it drives is actually an aberration of the genetic legacy of two million years of living in small groups, in which social status has been a critical force in reproduction. Miller argues that advertising and marketing persuade people, particularly the young ones, that the most effective way to display their status is through consumption choices, rather than conveying such traits as intelligence and personality through more natural means of communication, such as conversation.

Such status-seeking behaviour can also be risky. Capra and Rubin (2011) argue that an evolutionary approach may also explain the differences between groups, for example, between males and females, with the former being less risk-averse than the latter since males have more variable reproductive success than females. Males may potentially increase their reproductive success much more than females. It is their status-seeking internal drive that pushes them into risky behaviour, such as risky business investments or some purchases. However, the motivation that is driven by the human instincts is not always rational. Status-seeking can be risk-seeking behaviour that does not pay off.

Further analysis leads from instincts towards habits. Veblen imposes the imperative to explain the causality. Using Darwin's notion that people are not as much the 'creatures of reason' as the 'creatures of habit', Veblen sets habits as the central concept in his institutional analysis based on instinct-habit psychology. As elaborated by Hodgson (2012), activity and habit formation precede rational deliberation, instinct is prior to a habit, habit is prior to belief and belief is prior to reason. That is the order in which they have evolved in our human ancestry over millions of years. These lower elements are necessary but not sufficient for higher elements. Habits are the constitutive material of institutions and each building or changing of an institution involves the formation or adjustment of shared habits of thought.

This incorporation of psychology into economics is very important, because individuals are not entirely rational in optimizing their behaviour, thus maximizing their utilities of given preferences. Rather, their rationality is bounded by limitations. It is also procedural, where decision makers follow some procedures and decisions that are subject of their preferences or technology and reverse. Human behaviour, its sociological determination, individual tastes or preferences cannot be explained in an over simplistic way, neither can they be mathematically modelled with some simplistic assumptions without really considering instinct-habit psychology. Analysing human motivations and human desire is crucial. It is more sensible to assume that explanation with biological evolutionary concept is more accurate and closer to reality than homo economicus assumption with rational individuals. Since everything around us is also in constant move and dynamics, it is also rational to assume that there are no static or steady states, but rather some constant dynamic movements. Hence, people and institutions, habits and beliefs are also changing and evolving.

Dependence effect and revised sequence have shown to be the most powerful corporate tools in today's economy. Corporations control workers, competitors, markets, governments, public opinion and consumers. They succeed to reverse the classical view of consumer-production relationship, namely that the consumer is the one who controls the producer. Such a revised sequence cannot be attained without the dependence effect. It is this dependence effect with its passive and active aspects that drive the revised sequence and the success of corporate advertising. The roots of dependence effect are both in conspicuous consumption and handicap principle. The latter actually drives the conspicuous consumption, the dependence effect and the corporate power.

Corporations are keen to exploit one of the most powerful human instincts of the reproduction and display of the social status, thus fostering the consumerism as a marketing dominated culture at its worst. Consumers who are at the same time also workers with stagnant real wages as a result of increasing corporate power and increasing economic inequality are eager to maintain or obtain their social status. In many cases, they do not even strive to improve their social status, but merely maintain the existing standard or hide their impoverishment.

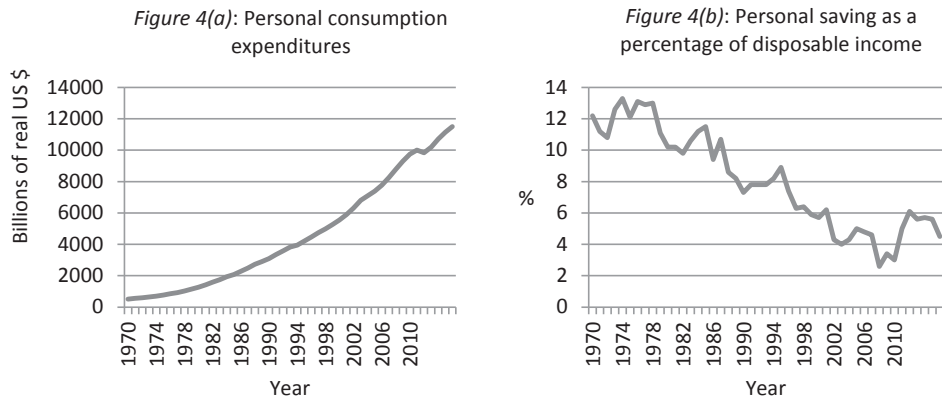
For this and other wants creations, they are even willing to borrow the money. Of course, such a debt is mostly unproductive and irrational. Most often, it does not pay off. Such a

debt is a consumptive debt and therefore non self-liquidating. It is not an investment that may bring some future cash inflow and liquidates itself with future revenues. It is a debt taken due to human instincts and therefore not an example of homo economicus. As the latest research from the field of evolutionary psychology and behavioural economy shows, the humans are still evolving and developing, and it would be sensible from marketers to substitute their paradigm regarding selling products for displaying status with products or services that imply some deeper mental traits, such as kindness, intelligence and creativity.

### 1.5 Household debt and public debt

Increased consumption can be observed in Figure 4. In the US, personal consumption expenditure grew sharply in the period from 1970 to 2012. In the same period, personal consumption expenditure outpaced personal disposable income, causing a drop in personal saving as a percentage of disposable income (Figure 4). The reasons for the decline in the personal savings rate are: more personal consumption and higher mandatory transfers, such as income taxes and security programs.

*Figure 4: Personal consumption expenditures and personal saving as a percentage of disposable income in the US (1970–2012)*



Source: US Bureau of Economic Analysis, 2015a.

On the other hand, household income stagnated or stalled. In the period from 1970 to 2012, the household income stagnated for the entire bottom 50 per cent of the household income distribution. Even 70 percentile showed only a modest increase from \$64,600 in 1970 to \$82,100 in 2012, in the period of 42 years. The top 10 and top 5 per cent, on the other hand, showed a sharp increase in household income (US Census Bureau, 2015)

Increased consumption and stagnated or stalled income lead into borrowing. The household debt shows a steady upward trend in the period from 1980 to 2010, both in

the US and the OECD countries (Cecchetti et al., 2011; OECD, 2015). As a consequence of people's indebtedness, more people need social help. Rising social transfers lead to a further rise in public debt which is already increasing due to the consequences of financial liberalization and the bailouts of private capital.

The transmission mechanism or a process of causation of how increasing corporate power causes rising household and public debt is the following: first, the increasing corporate power leads to increasing financial liberalization and globalization, increasing marketing and growing consumerism and consumption. Second, these increases lead to decreasing or stagnant real wages, lower taxes, lower budget income and bigger social transfers. This causes a deficit in government balance of payment and a fall in aggregate demand. Public debt and household debt rise. Last, the income and wealth inequality rise, too.

To maintain the standard due to stagnant wages people borrow money. At least two aspects need to be considered here. The first is that stagnant wages themselves present a problem because of the problematic distribution of income. This causes the income inequality, with almost entire surplus of economic growth and capital gains going to the upper class. The middle and lower classes get the income that is, considering the inflation, stagnant. The second aspect refers to the standard itself. What is a proper standard is also defined and shaped with the 'help' of the corporations. The corporate power is actually the one that influences the public opinion through the media and popular culture, pushing the ideology of consumerism in the front. With a sophisticated influence on public opinion they shape the environment, where the social norm 'keep up with the Joneses' eventually pushes the ladder higher and higher. Thus, it is the environment formed with the help of corporations and consumerism that define the standard. People are obliged to follow such a consumerist standard, because they do not want to be perceived as outliers or stigmatized as poor. To prevent this, they have to 'keep up with the Joneses'.

This debt-driven consumption is not sustainable and leads to unsustainable private demand and boom-bust credit cycles. Since the aggregate demand, particularly in the US, is driven mainly by the wrong type of debt-driven consumption, meaning non self-liquidating debt, the economy inevitably becomes unsustainable. Indebtedness only increases. The next factor is that overconsumption causes a fall in savings and consequently a fall in investments. Along with an increase in the income of the top and the income inequality gap, the fall in the aggregate demand causes an increase in borrowing of both the government and households.

The consequence of a rising public debt—this also rises because of socializing private bubble busts and the bailouts of private banks—are less effective countercyclical policies. On the one hand, the expansionary fiscal policy, with spending more on infrastructure, education, human capital and health care, is limited due to the rising public debt. Expansionary monetary policy, on the other hand, with lower interest rates and quantitative easing increases inequality even more because of lower returns to the savers. At the same time, corporations and market investors profit due to lower costs of borrowing and higher profits on the stock markets.

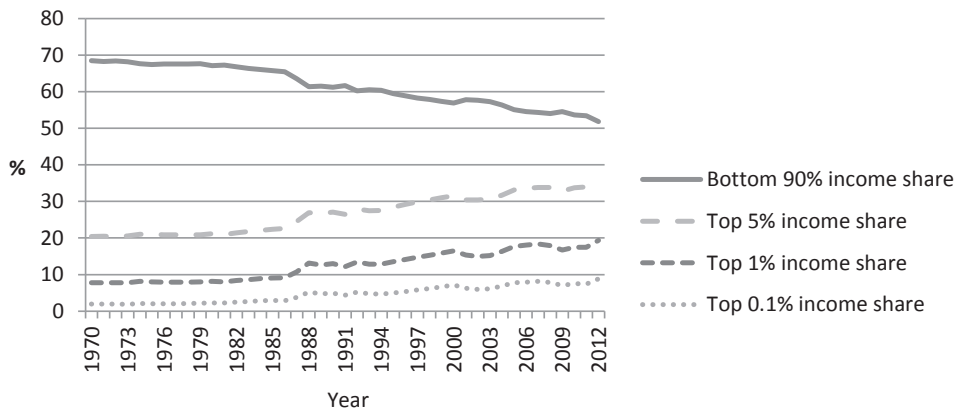


In the case of tight monetary policy with higher interest rates, the rich benefit again because they can lend their money at higher rates and make profit while protecting their real wealth against inflation. The lower and the middle class are mainly borrowers, so they are faced with an additional cost of borrowing due to higher interest rates. In this situation with strong countercyclical policies, the strongest part always profits, which makes the inequality in the society only bigger.

## 1.6 Inequality

Decreased union densities and workers' bargaining power, along with indebted households, can be seen in income distribution. For the bottom 90 per cent of income distribution in the US, income share decreased by 16.6 per cent in the period from 1970 to 2012, whereas for the top 5 per cent, top 1 per cent and top 0.1 per cent, income share grew by 16.6, 15.4 and 11.54, respectively (Figure 5). Such an average income and income share distribution clearly show that income inequality is increasing. Gini coefficient, from OECD (2015), shows that income inequality has increased in the US and the OECD countries in the last 40 years.

Figure 5: Income share in the US (1970–2012)



Source: *The World Top Incomes Database*, 2015.

A study, conducted by Azzimonti, de Francesco and Quadrini (2012) shows that rising public debt, financial liberalization and increased income inequality are highly correlated. Trade liberalization and economic globalization increase economic inequality (Bergh & Nilsson, 2010). The index of financial liberalization, constructed by Abiad, Detragiache and Therry (2008), further shows that the world's financial markets have become less regulated starting in the early 1980s. This can be regarded as the first bigger step of corporations towards the increase in their power. Such financial liberalization and innovation have also facilitated the borrowers' access to credit that was previously denied as well as relaxed



financing constraints on the first-time homebuyers. According to OECD (2006) report, the household debt rose to historical levels in a number of countries. It has been driven by a combination of favourable financial conditions and buoyant housing markets. There have also been a number of supply-side innovations in credit markets that have eased the access to credit for lower-income borrowers and reduced financial constraints for the first time homebuyers. As OECD (2013) reports, households remain highly indebted in a large number of OECD economies.

Inequality actually increases due to a decrease in taxes (Fieldhouse, 2013) and there has been a strong correlation between cuts in top tax rates and increases in top 1 per cent income shares (Piketty & Saez, 2011). In this aspect, it is interesting how democracy is related to redistribution and inequality. The usual model of democracy presumes that median voters employ their voting rights in a democratic system to reallocate funds from the wealthier towards themselves. If the difference between the wealthier and the median voters become bigger, the redistribution should be bigger, or more precisely, when the median voters will be poorer, they will be keener to reallocate from the wealthier towards themselves. However, Acemoglu, Naidu, Restrepo and Robinson (2013) have shown that there is a limited effect of democracy on inequality, thus not confirming this standard model. Inequality tends to increase after the democratization. The reason for that can be that democracy may be captured or constrained. Although democracy changes, the distribution of 'de jure' power in society, policy outcomes and inequality also depend on the 'de facto' distribution of power. Powerful elites who see their de jure power eroded by democratization may increase their investments in de facto power, implemented in controlling the local or state law enforcement, lobbying, or influencing the party system and politicians.

With the economic growth, some sections of the population enjoy a more than proportionate rise in income, as shown by Datta (2014). This leads to an increased allocation of resources towards the production of luxury goods, which often requires more resources than the production of necessary goods. That may not only reduce the production of necessary goods but also the total production. Consumption of luxury products could be the 'bandwagon' type of luxury consumption, mediated by the level of a consumer's status-seeking predispositions, susceptibility to normative influence and the need for uniqueness (Kastanakis & Balabanis, 2012). In addition, teen attitudes towards luxury fashion brands from a social identity perspective and their need for uniqueness and susceptibility to influence (Gentina, Shrum, & Lowrey, 2016), and older consumers who relate luxury goods purchasing mainly to status reasons tend to feel younger than those who consider luxury goods purchasing primarily as a means to express their individual style (Amatulli, Guido & Natarajan, 2015). Furthermore, there is a downward extension that fuel the continuous growth of the luxury sector and a continuum from the 'happy few' to the many less privileged (Kapferer & Laurent, 2016). Such problem of balancing consumption between the rich and the poor is, nevertheless, translating into increasing consumption of luxury goods, which could indirectly confirm rising inequality.

Excessive consumerism is also the cause of overprovided private goods and underprovided public goods, which reinforces inequality and impoverishment. As stated by Galbraith

(1958), the effect of increasing production of private goods and decreasing public goods is actually a state of private wealth and public impoverishment. Dunn and Pressman (2005) further elaborate that Galbraith follows Veblen and Myrdal, who view poverty as a cumulative and a self-driving circular causation. The poor are living in a deprived community without proper education, health care and other public services. They are deprived to get proper managerial skills and jobs or some positions in the government structure. Consequently, they cannot improve their economic and political positions or their social mobility, thus they stay trapped in this vicious circle of poverty for generations.

Impoverishment and the vicious circle of poverty, along with increased income inequality, also lead to workers' inability to adapt to technological changes, including skill biased and capital biased changes that results in additional unemployment. This further leads towards social inequality and the accompanying deterioration of their health and mental condition, not to mention the stress and bad quality of life. The study of Wilkinson and Pickett (2009) has shown that there are pernicious effects of inequality on societies: eroding trust, increasing anxiety and illness, and excessive consumption. The societies which do best for their citizens are those with the smallest income inequality, whereas the most unequal societies, such as the US, the UK and Portugal, do worst. Thus, the status and income differences have social and health consequences.

Rising corporate power thus accounts for rising income and wealth inequality. Because of the influence of corporate power on workers, markets, politics, government and society, and their increasing bargaining power towards the workers, the corporations have effectively achieved such distribution and redistribution of income that favours them and rich individuals.

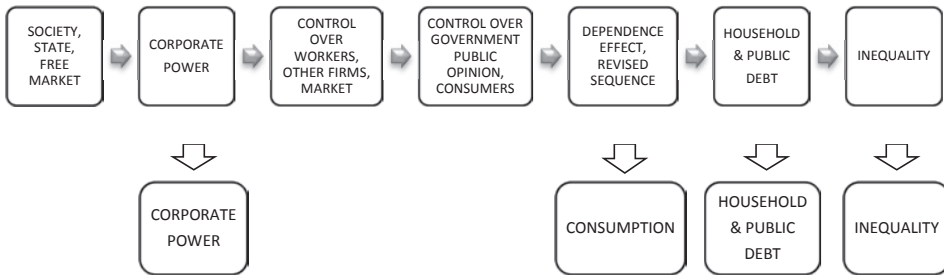
Next, the increased corporate power causes financial liberalization and reduced taxes, which brings about increased capital gains and thus an increased income gap. Additional consequences are reduced taxes that cause some budget deficits as well as reduced social transfers, fewer investments in education and human capital, less social mobility and, consequently, a vicious circle of poverty entrapment. The rising corporate power leads to increased consumerism and consumption, which, in turn, results in increased consumptive debt and increased household debt due to the stagnant real wages and increased debt of the consumers.

These increasing inequalities have an immense impact on individuals, people and society. People's life becomes worse, their indebtedness is on the rise, the possibilities of better education are fewer, and their social mobility declines. Unemployment is rising or stalling, but never really disappearing. The environmental problems and its degradation worsen the quality of life, natural resources are destroyed and have become even scarcer. Such a path is clearly not sustainable and it cannot bring about the prosperity.

## 2 THE PROCESS OF CUMULATIVE AND CIRCULAR CAUSATION (CCC)

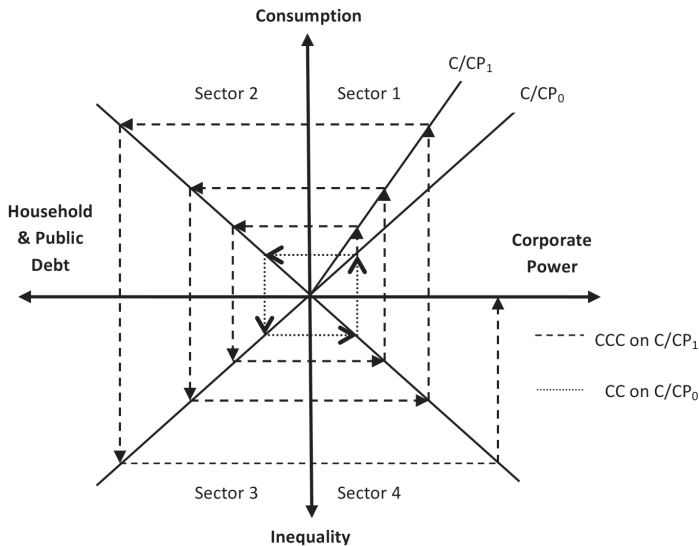
After the process of causation (C), proceeded with the process of circular causation (CC), the final stage or process of political-economic model is the cumulative and circular causation (CCC). The whole sequence of variables can be actually translated into four main variables which are quantitative. Therefore, we can observe more viable data that this model is producing. They can be measured and observed in a real life. As shown in Figure 6, these four variables are: corporate power, consumption, household and public debt, and inequality.

Figure 6: Four main variables of the process



In the final stage, four main variables are used in a four-dimension graph (Figure 7) in a Cartesian approach similar to O'Hara (2008). The construction of the graph is consistent with the defined sequence, moving from the right to the left. The movement shows a steady increase in all four parameters. At the beginning, with a static corporate power as  $C/CP_0$ , the movement is steady and in circular causation. With the increase in the corporate power as  $C/CP_1$ , the curve in sector 1 shifts upward and therefore generates an increase in all four variables. The movement is cumulative in time with upward trend in all four variables.

Figure 7: The process of cumulative and circular causation (CCC)



In the first sector, the corporate power influences the consumption (Figure 7). Corporations use marketing, dependence effect, consumer indoctrination, public opinion, private and public media, influence on politics and government in order to lessen the regulations and to stimulate the consumption. They provide finance in order to incur consumer debt and revised sequence. All these combined and complex approaches ensure corporations to secure their investment and provide sufficient demand for their products and services. Such a sufficient demand for corporate products and services is attained through consumption.

In the second sector, consumption influences household debt and public debt. There are multiple transmission mechanisms working here. The first is that due to corporate power and its bargaining power towards worker on the one hand and influencing the government to dismantle the unions and worker's bargaining power on the other hand, leads to a decline in real wages. This is particularly noticeable when compared to a rise in productivity and profits. Stagnant wages and growing consumerism and consumption increase the gap between expenditures and incomes, forcing consumers into borrowing, which all leads to higher household private debt.

The second transmission mechanism is that, due to corporate bargaining power towards workers and influence on government, such distribution of income and taxation of wealth and incomes have been imposed that are in favour of the rich and impoverishes workers. Because of a rising consumption, and as a result of stagnant real wages, the workers' indebtedness grows. The consequence is that more people need social help. Rising social transfers lead to further rise in public debt. On the other hand, there is an inflow in the budget due to taxes on consumption, but this is only a fraction (around 20 per cent) of the final price that consumers pay and it is expenditure for them.

There is also an additional transmission mechanism which works due to the imposition of financial liberalization and supply-side economics by corporate power. One of the consequences is a decrease in income taxes, wealth taxes and corporate taxes. This leads to a drop in budgets' incomes, and to a further rise in public debt.

The third sector is represented by household and public debt, and it influences the inequality. Higher public debt disables the government to invest in education, health and other infrastructure, or at least to maintain the satisfactory level. Such austerities mostly affect the lower income population because they cannot afford to buy better education or health services as the rich can. The social transfers also decrease. Higher household debt causes that people cannot invest in their education or increase their savings and consequently their wealth and financial independence. Both effects are accountable for a drop in social mobility and a decrease in human capital, they worsen people's standard of living and increase the gap between the rich and the poor.

An additional transmission mechanism also works here. After financial liberalization and supply-side economics imposed by corporate power, income, wealth and corporate taxes decrease, which leads to an increase in top incomes and a decrease in stagnant incomes at the bottom of the societal ladder. Hence, the income and wealth inequality increase.

In the fourth sector, inequality influences corporate power. People who are impoverished and less equal compared to the production owners and rich capitalists represent a weaker part in economic bargaining process. Their collective bargaining power is dismantled, so they cannot improve their position. They enter into a bargaining process with their employers as individuals, with a weak union or without it. Under such circumstances, economic inequality causes a rise in corporate power.

## CONCLUSION

In short, this paper extends the existing literature with an analysis of corporate power and its influence on consumption. We find that corporate power causes increased consumption by using combined and complex approaches of advertising techniques in order to secure the companies' investment and provide sufficient demand for their products and services. The advertising exploits some powerful human instincts, thus fostering the consumerism and a marketing dominated culture. Next, rising consumerist consumption influences increasing household and public debt with multiple transmission mechanisms that work simultaneously and reinforce each other.

Growing household debt and public debt further increase the inequality by disabling the government to invest in education, health care and other infrastructure, and by decreasing social transfers. A higher household debt also causes that people cannot invest in their education or increase their savings and, consequently, their wealth and financial independence. Finally, the inequality poses an increase in the corporate power. People who are impoverished and unequal in comparison to the production owners and rich capitalist are also weaker in the bargaining process. They cannot improve their position, so the corporate power only rises. With rising corporate power, a new circle of causation begins.

The main system variables are accumulating in time, which causes a slower economic growth, political instability and higher unemployment. It also causes social and health problems, fewer education opportunities, lower human capital and lower social mobility. Economic implications behind this process show that such development cannot be economically and socially sustainable.

To conclude, the theoretical work in this paper provides some ideas regarding corporate power and its influence on consumption, household and public debt, and inequality, but clearly more work has to be done. In future research, this theoretical work could be empirically tested, especially in terms of measuring the corporate power and empirical testing of the relationships between those variables of the CCC model.

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