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MASTER'S THESIS

THE ECONOMICS OF CUMULATIVE AND CIRCULAR CAUSATION DERIVED FROM THE IDEAS OF VEBLEN AND GALBRAITH

Ljubljana, September 2014 FRANCI PORENTA

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INTRODUCTION

Since the mid-1970s, we have observed increased public debt in the most developed OECD (Organisation for Economic Co-operation and Development) countries. At the same time, income inequality has begun to rise and the gap between the real wages and the household incomes, on the one side, and the productivity on the other side, has sharply increased. So have public debt and household debt. At the same time, market and the financial market in particular, have become less regulated, income and corporate taxes have decreased, income progressivity taxation has regressed, tax evasion has increased, and globalization has strengthened. All this has led to a greater economic inequality.

There is a long period of flat or stagnant wages which only reinforces economic inequality. Another sharp distinction is the wealth and assets owned, where merely a few top per cent has increased its wealth and income in the last few decades. The consequences of high inequality are also slow economic growth, political instability and higher unemployment.

Given the above implications, there are several empirical facts that there is economic inequality and that such inequality causes slower economic growth, political instability and higher unemployment. It is also the cause of social and health problems, fewer education opportunities, lower human capital and lower social mobility. There is also increased public debt and household debt. Consumption is becoming more and more consumerist and debt driven. On the other hand, there is a fall in income progressivity taxation and a decrease in income taxes and corporate taxes. Consequently, the real wages are stagnant despite the rising productivity, the regulation in the markets is weakened and multinational corporations are increasing their power. Taking all this into consideration, the next logical step is to ask oneself why this is happening, what the cause of all that is, and how this can be changed so that there would be more equality and better social well-being?

In this complex world of multifold factors, there is a need for the approach that would encounter all possible factors, causes and consequences. Such multi causal approach, where the main variables are described and where a change in one of them is causing a change in the other, forming a sequence and going in a circle and accumulating, is called cumulative and circular causation (hereinafter: CCC). In this thesis, I use these principles of CCC based on the ideas of Thorstein B. Veblen and John K. Galbraith. In their economic analysis, they work 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, 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 not sufficient. 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 is constrained because of the rising public debt, and expansionary monetary policy with lower interest rate and quantitative easing, on the other hand, it 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 results in additional unemployment.

All that is the **subject** of my thesis, whereas the **purpose** of the thesis is to find out what is causing the inequality, why public and household debts are rising, what is causing the excessive consumerism and consumption, how corporations are obtaining power and how they are influencing the stakeholders, public opinion, politics and government. I do the causal analysis between these different factors and show how the transmission mechanisms work. I also explore the dynamics of economy and research in order to find out if there exists an equilibrium state or perhaps some non-equilibrium dynamics.

The **goal** of the thesis is to build an economic model based on logical observation, causes and consequences reasoning, and empirical data. By building such a model, I explain the causation between various factors, their transmission mechanisms, their natural relations and how they are accumulated over time. I show a clear pattern of the economy dynamics and answer the research questions. For building a model, I use the principles of the CCC.

The **research method** is descriptive and analytical, based on logical reasoning and the observed causalities and consequences. I use such descriptive analysis together with the causal analyses of causal effects. The causal inference is the process of drawing a conclusion about a causal connection based on the conditions of the occurrence of an effect and analyzing the response of the effect variable when the cause is changed (Morgan & Winship, 2007). Next to the qualitative observation and logical reasoning, there is also a quantitative observation of relevant empirical data in order to test the basic model.

In the thesis, I answer to the following **research questions**: is the growing corporate power and consumption driven by conspicuous consumption and consumerism leading to rising public and household debt, economic inequality and unsustainable growth? Should there be less consumerist consumption and more savings on the one hand, and more government spending on public goods, particularly on education, human capital and social mobility, on the other hand? Should the state interfere into economy and countervail the corporate power, and if so, when? Should the economic inequality be reduced by distribution and redistribution changes and decreased corporate power?

As for the **structure,** the thesis begins with an outlook of Veblen's and Galbraith's ideas relevant to the topic. First, I provide a broader insight into institutionalism and evolutionary economics. Institutions are actually constraints shaped by humans and created throughout the history in order to establish order and reduce uncertainty. They evolve all the time in a natural evolutionary way and influence economy, politics and society. The evolution of institutions also creates more or less effective legal structure in order to create a necessary and sufficient institutional framework for a successful society. The economics of institutions incorporate a broader study of institutions which are complex and analyze an economic system not only with classical agents, households, firms, government and markets, but also with other institutions. The economic development can thus be seen as an evolutionary process and the economy is always changing. The steady change and a steady progress determine an evolutionary process in economy as a persistent process of transformation and innovations.

In the next sections, I present some specific ideas by Veblen and Galbraith. Veblen was one of the co-founders of the American school of institutional economics and with his original and, in many ways, pioneer work in the field of institutionalism and evolutionary economics, he was a leader of the institutional economics movement. He combined Darwinian evolutionary principles, anthropology, psychology and sociology with an economic analysis. As a predecessor, he also had a strong influence on Galbraith, who worked upon institutionalism, Keynesianism and liberalism.

In the second chapter, I develop a political-economic model based mainly on the features of Veblen's and Galbraith's ideas. The model combines the findings of both authors in the integrated and interrelated system of variables that describe how the economy actually works. The interactions of the variables are complex, but there is a clear notion of the CCC of those variables. I construct a model based on the principles of the CCC, starting analytically and logically from the building blocks of all variables and its causations and following with the next step of their circular causations. In order to test the model and its qualitative observations and analyses, it is important to observe more viable data that such model is producing. The whole sequence of variables, the building blocks, can also be translated into four main variables which are quantitative. Those four variables can be measured and observed in a real life. After the determination of four main empirical variables, I conclude with the last step of the construction with the accumulation of the circular causation, the CCC. In this final step, I construct a four-dimensional graph, consistent with the defined sequence, present relevant empirical data, and transmission mechanisms.

In the third chapter, I discuss the implications of the CCC. Most striking is surely the inequality: not only the economic inequality, but also social inequality. These increasing inequalities have an immense impact on individuals, people as a whole, and the society. With rising indebtedness, fewer education possibilities, and declining social mobility, people's life is deteriorating. Unemployment is rising or stalling, but never really disappearing. Environmental problems and its degradation also worsen the quality of life, not only people's life, but the life of all living beings. The natural resources are destroyed and become even more scarce. Such a path is clearly not a sustainable one and it does not lead towards prosperity. Economic inequality can be destructive and can really hinder the economic growth. The next implication is that democracy does not seem to have much effect on inequality. This consequence is crucial, because it means that ordinary people do not have any real influence on politics, government and real life at all.

The answer to why this is so lies in the mighty power of capital and the corporate power. Namely, one of the main tools for obtaining and mostly maintaining their assets and wealth is the corporate power. Through corporate power, the owners and the super managers leverage all possible aspects that are vital for maintaining their status: they try to control workers, consumers, market, public opinion, politicians, government and legislators. Without corporations and corporate power, it would be more difficult for rich individuals to impose their vested interests, but with it, they have a stronger position. They can impose their de facto power and curtail de jure distribution of power in the society to their advantage. The consequences are that the state is keener to protect private interests than public interests. Further implications are also excessive consumerism and consumption, debt-driven consumption, which is clearly not sustainable and leads to unsustainable private demand and boom-bust credit cycles, ineffective countercyclical policies and absent countervailing power of the state.

1 VEBLEN, GALBRAITH AND INSTITUTIONALISM

Thorstein Bunde Veblen, (1857-1929) and John Kenneth Galbraith (1908-2006) were both proponents of institutionalism. Veblen is one of the co-founders of the American school of institutional economics, together with Wesley C. Mitchell, John R. Commons, Walton Hamilton, John M. Clark and some others. With his original and in many way pioneer work in the field of institutionalism and evolutionary economics, he was a leader of the institutional economics movement. He combined Darwinian evolutionary principles, anthropology, psychology and sociology with economic analysis. As a predecessor, he also had a strong impact on Galbraith, who researched institutionalism, Keynesianism and liberalism.

1.1 Institutionalism and evolutionary economics

There are two major traditions of institutionalism in economics. The first one is called the ‘old’ institutional economics (hereinafter: OIE) and is based on the American institutionalist tradition started at the turn of the century. The second one is called the ‘new’ institutional economics (hereinafter: NIE) and is more recent development. According to Rutherford (1994, pp. 1-2), OIE consists of the tradition of thought associated with Thorstein Veblen, Wesley Mitchell, John R. Commons, and Clarence Ayres, and with the more recent contributions by Allan Gruchy, Wendell Gordon and Marc Tool. Within the OIE, there are two research programmes of major theoretical significance. The first one is associated with Veblen and with the development and modification of Veblen's system undertaken by Clarence Ayres. It is built around the concept of a fundamental dichotomy between the business or pecuniary and the industrial aspects of the economy. It focuses on investigating the effects of new technology on institutional schemes, and the ways in which the established social conventions and vested interests resist such change. The second major programme within the OIE has its roots in the work of John R. Commons and is represented by writers, such as Warren Samuels and Allan Schmid. It concentrates on law, property rights and organizations, their evolution and impact on legal and economic power, economic transactions, and the distribution of income

There are also some differences within the NIE. Rutherford (1994, pp. 2-3) distinguishes the following aspects within NIE: one research programme can be found in the work on property rights, associated with Armen Alchian and Harold Demsetz, and on common law by Richard A. Posner. Another programme is that concerned with public choice processes, including those that involve rent seeking and the activities of distributive coalitions, associated with Mancur Olson and Dennis C Mueller. The third programme deals with organizations and includes the agency theory developed by Michael C Jensen and Meckling H. William, and work on transactions costs stemming from Ronald H. Coase and utilized extensively by Oliver Williamson. Additional aspects are also provided by game theorists. Many of these elements are combined in the institutional economic history, like that of Douglass North. The NIE has also been defined to include Austrian and neo-Schumpeterian efforts to explain various types of institutional development in invisible-hand or evolutionary terms, like the work by F. A. Hayek, Richard R Nelson, Sidney G. Winter and Richard N. Langlois.

The second major programme within the OIE that has its roots in Commons's work has closer links with the NIE than with Veblen-Ayres tradition. This is due to its emphasis on transactions, property rights, and organizations. However, Commons's approach significantly differs from anything found in the NIE. In some respects, OIE programmes complement each other, but differences and disagreements do exist. Nevertheless, for many purposes, the Veblen-Ayres and Commons traditions can be grouped together in contrast to both the neoclassical and Austrian ones. There is also some sharp criticism between OIE and NIE. To dismiss someone's work from further consideration one merely has to show that it belongs to the other side and therefore cannot be of use or interest for one's own programme. However, as Rutherford (1994, p. 5) clearly states, all of these standard dichotomies are false and misleading. The extreme positions are actually untenable any adequate social theory cannot be strictly on the one side or on the other, and many social theorists do, in fact, adopt more moderate and modest positions. To argue in this way is not to claim that there are no areas of serious disagreement, but merely to highlight that the alternatives involved do not resolve into simple either/or choices. This expands rather than contracts the number of possible positions. Many views can be shared on both sides and such pragmatic and realistic approach is also used in my thesis.

1.1.1 The role of the institutions

Institutionalism explains the role of the institutions and the evolutionary principles in the economy as a system of continually evolving institutions and laws. Institutions can be formal or informal. Formal institutions are institutions like laws, constitutions and property rights. Informal institutions include customs, traditions, taboos, sanctions and codes of conduct (North, 1991). Institutions are actually constraints shaped by humans and created throughout the history in order to establish order and reduce uncertainty. They were evolving all the time in some natural, evolutionary way, influencing economy, politics and society. Evolution of institutions is also creating more or less effective legal structure and law system which depends on the development of political institutions to create a necessary and sufficient institutional framework in order to produce a successful society.

The economics of institutions incorporate a broader study of institutions which are very complex, analyzing an economic system not merely with classical agents, such as households, firms, government and markets, but also with a variety of other institutions.

One of the complexities of institutions is illustrated by Williamson (2000) in his four levels of social analysis, where the first level represents the social embeddedness and informal constraints or institutions together with religion. These institutions are changing very slowly from a century to millennium. This level is taken as given and for Williamson these informal institutions have mainly spontaneous origins. Given these evolutionary origins, they are adopted and thereafter display a great deal of inertia, whereas others take a symbolic value with true believers, many are pervasively linked with complementary institutions, either formal or informal. The second level represents the institutional environment with formal rules or constraints and is partly a product of evolutionary process. In this level, the pace of changing is much faster, from ten to hundred years. The third and fourth levels are governance and resource allocation and employment, with one to ten years of change frequency and as continuous change respectively.

I would argue that informal institutions have mainly spontaneous origins and that they are often non-calculative. A lot of these informal institutions are products or are determined by human actions in historical time and evolutionary principles. Like famous handicap principle and its humanly version of conspicuous consumption, it is actually a handicapping behaviour for signalling and gaining a better status, but could also be applied as game strategy. Similar effect is achieved by imposing different kinds of ideologies with various sophisticated tools of control so as to maintain the position and power in society. A lot of these actions were consciously made and initially imposed by dominant groups of people, and only later, through the process of emulation or imposition, became norms, customs, traditions or religion.

Today's typically unproductive or irrational behavior is excessive consumerism with the norm 'keeping up with the Joneses,' which has its roots in handicap principle and conspicuous consumption. This informal institution has nothing to do with spontaneous origins but was imposed during the second industrial revolution and emerged a nouveau riche social class, which resulted in the accumulation of the capital wealth and its leisure class engaging in conspicuous leisure and signaling their new wealth status. Because of the development of capital, capitalism and financial markets, leverage and debt economy, common people were only later able to adopt this game strategy and emulate the leisure class. Since then, this has become a norm in the modern society. It is stimulated in the majority of developed countries as a form of prevailing economic policy, with the fostering of consumption as their best option to boost the aggregate demand and economic growth.

Economic development can be seen as an evolutionary process and the economy is always in the process of change. The agents are not calculative or substantively rational but rather limited, procedural or bounded rational. Agents can never fully understand the environment or be always rational in decision making. Some informal institutions, such as routines, can help to adopt as well as learn from the experiences and interactions that could lead to change. Economic development does not lead to some general equilibrium and steady state, but is rather a non-equilibrium process which is always changing and evolving. Economic performance can thus be seen as a measure of progress, and a progress as a learning process which defines how successful the society is. Nelson and Winter (1982) argue that, if the changes were constantly occurring in the economy, then some sort of evolutionary process must be in act and that this process is Darwinian in its nature. The mechanism that provides a selection generates some variation and establishes self-replication. The steady change and progress determine an evolutionary process in economy as persistent process of transformation and innovation, differentiated from the static steady-state in the neoclassical economics.

There is a difference in formal modelling between neoclassical models which assume that theoretical equilibrium can be obtained, and evolutionary economics which prefers to describe the economics as dynamic systems away from equilibrium. There is also a distinction between different forms of theorizing. Formal theory is more mathematical, whereas appreciative theory is closer to empirical observation, analysis and research, and aims to capture what is actually going on. ″ Formal theoretical structures are augmented so that the previously non-interpretable phenomena now have an interpretation. Somewhat informal explanations in the style of appreciative theory are abstracted, sharpened, and made more rigorous. These linkages can also be seen as constraints. In particular, if certain mathematical limitations prohibit formal theorizing from proceeding fruitfully in certain directions, appreciative theory tends to respond to the blockage too, and to be pulled where formal theory does proceed fruitfully.″ (Nelson & Winter, 1982, p. 47). Neoclassical economics does not use the appreciative theory enough, which is why it cannot satisfactorily explain the reality, which is more complex than mathematical models and simplified assumptions. In order to cope with such complexity, it is important to consider all possible factors that influence and determine dynamic economic system.

Economic system and its institutional framework is also determined by path dependence, which is, with North (1991), a process of institutional evolution in which yesterday's institutional framework provides the opportunity set for today's organizations. Path dependence had a strong influence on evolutionary economics. Economic processes do not develop steadily to some set equilibrium and theoretical optimum and the result of a path dependent process will not result in general equilibrium, but it will actually attain several dynamic states with permanent process of change, interlinked and interdependent with dynamic growth and evolutionary development. In economic processes with path dependence, the starting point itself and unintentional actions or random events can have important influence on the final result. Path dependence shows how today's decisions are limited by the decisions made in the past, even though previous conditions may no longer be of significance. The past sets the future. For some theorists this inertia and path dependence are taken as given and thus resulting in unnecessary passivity. This passivity can be changed to more productive activity by means of education and technological changes, which are progressing with exponential pace. However, with those technological changes, all the supporting institutions have to change and evolve, too, and provide a proper support.

1.1.2 Co-evolution of the institutions

If there is a failure of co-evolution of the institutions with the technological changes and economic growth, then there is an inevitable path to fail as a system, or at least have some big problems in the economy and in the society itself. As Nelson (2007) claims for the underdeveloped countries, a successful improvement needs the institutional organization that makes possible human and physical capital to be invested, enabling so needed innovations. For their development, the co-evolution of the institutions is needed, like firm structures, employed technologies, various economic institutions, proper government policies, education at all levels, as well as informed public. The driving force for catching up is incorporation and learning to do efficiently what more successful countries have been already doing. This, together with proper institutional structure, can draw additional human and physical capital by allowing higher revenues. The education system plays here one of the most important roles.

The same analogy can be used for the capitalism as an economic system and its inevitable contradictions. Capitalism has two big contradictions that reinforced themselves, namely the maturity of economies and centralization and concentration of capital. I discuss this more in detail in the next chapter, but the main point is that both generate the expelling of free competition from the markets, and the vast financial sector overgrowing the real sector. This results in the immense growth of the international corporation, its corporate power and influence on politics, governments and society. Since the industrial revolution and the emergence of the age of capital as the dominant factor, capitalists as a wealthy part of the society have maintained the income distribution that produce social, income and wealth inequality. Despite tremendous technological changes, innovations and productivity, income inequality and wealth inequality have remained almost the same in some developed countries. In fact, in recent years, income inequality in some of the most developed countries, like US, is worsening back to the 19th century, to the so-called Gilded age. What is the point of my argument? Namely that there was obviously no co-evolution of the institutions with the technological changes and economic growth. If otherwise, there would not exist such an economic inequality, since it is rational to assume that, in the long term, societies with less inequality are more productive and successful.

Institutionalism is mainly focused on institutions, routines, habits, rules, and how they evolve in time. However, institutionalism does not build a single, general model on the basis of, as Hodgson (1998) has pointed out. Rather, those ideas make possible an approach based on historical and specific analysis. There is also a similarity between biology and institutionalism. In the evolutionary biology a study of the evolution of an organism entails specific explanations relevant to the species and thorough data regarding the organism and its surroundings. On the contrary, in natural science there is an effort to build one general theory of all material events, the theory of everything (Cohen & Stewart, 1994). Because institutional economics highlights more specificity, it is more similar to biology than to physics. Economy is thus a live organism, which is changing and evolving, so economics should be compared with biology and not with mathematics, which is still the mainstream nowadays (Hodgson 1993).

The methodology used in institutionalism can also be referred to as bottom-up method, meaning that the analysis starts from specific facts and theoretical hypothesis, considers causal effects and moves towards general ideas. The analysis is interdisciplinary and uses comparative and historical empirical data taking into account various social and economic institutions. There is no rational utility maximizing agents in these analyses, but rather individuals who emphasize the predominance of habit or rules and the prospect of newness. For Hodgson (1988; 1998), institutionalism shift from general thought towards specific thoughts linked to specific economic institutions. The concepts of habits and of institutions assist as a connection linking the general and the specific. On the other hand, institutional economics does not suppose that its concepts of habits and institutions themselves are sufficient to move on the way to operational theory or analysis. First, it has to be shown how specific habits are incorporated by specific institutions. Institutional economics is therefore moving from the abstract to the concrete and thereby developing specific analyses of specific events.

Veblen (1899; 1914) claims that evolutionary paradigm encloses continuity and inertia, as well as change and novelty. When agents or individuals are trying to improve themselves, there can be a very slow change in habits or routines. There is also some selection where several routines and habits are either maintained and emulated, or discarded. Because of this, institutionalism resembles evolutionary biology and it can be said that institutionalism is an evolutionary economics, inclined towards dynamic rather than equilibrium state. The question is when a change and novelty prevail upon continuity and inertia, and cognition and learning or habits and knowledge in the 'old' institutional economics make some positive results?

To make another point, I have to go back to the definition by North (1991) that institutions are actually humanly made constraints, formal and informal. Thus, individuals are influenced and constrained, and the institutions are predetermined and difficult to change. On the other hand, with Hodgson (1998), individuals are not just influenced and constrained but rather make up by institutions. Consequently, the interaction does not go in one way only and as already determined and given, but goes in both directions. Individuals are formed and influenced by institutions, but also institutions are formed and changed by individuals.

As mentioned above, consumerism and consumption is in the majority of developed countries the main factor of economic growth policies. Instead of fostering technological innovation and education, some countries are more reluctant to stimulate and advocate consumption as the main drive for increasing aggregate demand. From the time of marginal revolution, the economic focus in economy has generally moved from a supply constrained to a demand constrained economy, where the economy is restricted in its capability to consume. Consumption itself can be understood as the ultimate criterion of value. From neoclassical view, the final use or consumption is explained as the use of unconstrained or uninfluenced rational person or homo economicus, while from the institutionalist view, there is no such rational person, but rather a person constrained by bounded, limited or procedural rationality.

As Gruchy (1987) has pointed out, the institutionalist treatment of the value problem is the key problem in the science of economics and reflects much of the fundamental unity that ties together the major characteristics of institutional economics. The institutionalists' views are reflected in their cultural, anthropological, and pragmatic philosophical approach to their science, their paradigmatic break from economic orthodoxy, and their adoption of a processional rather than equilibrium paradigm, their description of economics as a science of social provisioning, and their evolutionary and holistic methodology. All these major characteristics of institutional economic thought mutually support one another. The institutionalist value theory is in contrast to the utility value theory of orthodox economists that draw theoretical support from the latter's outmoded equilibrium paradigm. The instrumental social value theory of institutionalists logically follows their conception of the economic system as an open, ongoing process. Such a view of the nature of economic system shows that values are likewise non-absolutistic, but flexible and subjected to continuous reappraisal and emergency. Their place is in the actual social process, not in the subjective minds of supposedly rational consumers.

According to Gruchy (1987), the institutional value theory can thus recognize that a valuation is actually a constant cultural evolutionary process, that items of value are never static, final or absolute in nature, and that, just as culture and technology, themselves change constantly. What is considered to be desirable through valuation procedure, which also changes throughout history, is the product or event that allows the individual to minimize the tensions or disagreements in order to fully develop a personal potential and to contribute to better social well-being. The final element of institutional value theory is a criterion or standard of valuation as a criterion of final use or consumption. The criterion of final use or consumption is of a social and instrumental nature, since it emphasizes how the use of values may contribute to the improvement of the individual's or community's well-being.

1.2 Veblen and evolutionary economics

There are some distinctions between evolutionary economics and institutional economics. The expression 'institutional economics' initially emerged at December 1918 meeting of the American Economic Association, where the major advocates of institutional economics were Walton Hamilton, John Maurice Clark and Wesley Clair Mitchell. At that time, Veblen was already in poor health, but he was widely acknowledged as the principal inspiration of this new school of thought. In that sense, as Hodgson (2012) argues, he can be considered the father of institutional economics. The original American institutional economics, then much inspired by Veblen's contribution, reached the highest point of its influence in the 1920s and 1930s. Although Veblen remained influential in policy circles until the 1950s, his core theoretical presuppositions were questioned and attacked much earlier, with his evolutionary approach being in the centre of criticism. Later, institutionalists have largely abandoned Veblen's evolutionary and Darwinian research programme and its links with instinct-habit psychology. Although later generations of American institutionalists in this tradition remained fond of the word 'evolutionary', they have actually abandoned Veblen's evolutionary approach. Thus, on the one hand, Veblen's 'institutionalism' is widely acknowledged, but on the other hand, Veblen as the 'evolutionary economist' is often neglected, despite the fact that he called repeatedly for economics to become an 'evolutionary science' that should be transformed along 'Darwinian' or 'post-Darwinian' lines, and that he was the first to import core Darwinian ideas into economics.

1.2.1 The role of instinct-habit psychology

The evolutionary economics developed by Veblen was based on evolutionary theory, Darwinian principles, anthropology, sociology, and psychology, and explaining economic behaviour as socially orientated. For Veblen, economic organization and the development of institutions represent an evolution in progress motivated by the human instincts of emulation, predation, idle curiosity, parental bent and workmanship, and in contrast with neoclassical economics view that sees the development of institutions as the consequence of rational choices by individuals. Marginalism at that time was favouring rational individuals and homo economicus who is always rational in his or her decisions, which is very unrealistic. Utility, preferences and reasoning itself were not enlightened satisfactorily by the mainstream economics, whereas Veblen started his analysis with the explanation of exactly these characteristics, using instinct-habit psychology.

Drawing from Darwin and others, Veblen imposed the imperative that the causal origin of all evolved phenomena had to be explained. Together with the psychologist William James he takes up the fundamental idea expressed by Darwin that reason emerges on a substratum of instincts and habits and, as Darwin wrote in 1856, that people are called the 'creatures of reason,' although it would be more appropriate if they were called the 'creatures of habit' (Darwin, 1974).

For Veblen, **habits are the central concept** in his institutional analysis. The term habit suggests a propensity or disposition, not behaviour as such. Habits are not actions, but the dispositions that guide them. Veblen accepted a pragmatist theory of action in which activity and habit formation precede rational deliberation. Reasons and intentions emerge in a continuous process of interaction with the world, while we are always driven by habits and other dispositions. Reasons are thus connected with doing, because activity is the stimulus for habits of thought, and because reasons and intelligence guide action through difficulties. Deliberation and reason are deployed to make choices when habits conflict, or are insufficient to deal with the complex situation. Consecutively, patterns of reason and deliberation themselves begin to become a part of habits, so that when we face a similar situation again, we may have learned to deal with it more effectively. Reason cannot overturn habit, but it must make use of it to form a new habit. Adaptation to a problem situation is knowledge and it stems from and assists activity. For Veblen, our concepts of ideas and habits of thought evolve in interaction with the world. 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. Lower elements in the hierarchy do not entirely determine higher functions, but they impel them into their being, where they are formed in their natural and social context. These lower elements are necessary but not sufficient for higher elements. For Veblen, 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 (Hodgson, 2012).

This incorporation of psychology into economics is very important and rather essential, because all conventional economics or neoclassical economics are based on rational individual and its maximizing utility of given preferences. Individuals are not entirely rational or rationally optimizing their behaviour and their actions cannot be subtracted in universal mathematical equations. 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. Neoclassical rational choice theory does not analyse human motivations and human desire, and normally presumes that individual decides for the best options due to personal preferences. Such rational behaviour can be then mathematically modelled and therefore predictions about future behaviour can be made. But again, human behaviour, its sociological determination, individual tastes or preferences cannot be explained in an over simplistic way. Compared with human complexity, rational choice theory and rational utility maximize the individual without analysing human motivations and human desire.

Therefore, the understanding of humans' motivations, their reasoning and their actions is crucial. Since humans are not machines neither robots with some logical programming, but biological beings, it is 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, including the universe itself, is in constant move and dynamics, it is also rational to assume that there are no static and steady states, nor is there some equilibrium or general equilibrium, but rather some constant dynamic movement. Hence, people and institutions, habits and beliefs are also changing and evolving. Some of them sooner, others later, depending on various factors and circumstances.

1.2.2 The process of causal explanation

One of Veblen's main contributions was to incorporate Darwinian principles into economics and this was done in a much broader way than just with some biological analogies. As Hodgson (2012) argues, Veblen upheld that Darwinism was more than a biological theory: it was a new philosophical system, bringing a framework of explanation for all complex systems involving entities that compete for resources. Therefore, the core Darwinian principles of variation, inheritance and selection made it possible to generalize and relate them to social phenomena. Like Darwin, Veblen also emphasizes the importance of processional or causal explanation over assumptions of fixed outcome. Veblen uses expressions such as '**cumulative causation**', 'theory of a process of an unfolding sequence' and 'impersonal sequence of cause and effect' for the same ideas. This focus on algorithmic processes is revolutionary and modern, because it concentrates on ongoing processes rather than on static equilibrium. Rather than taking individual reasons or preferences as sufficient to understand motivations, Veblen directs to the need of causal explanations of reasons or preferences. Veblen thus opposes marginalists, who take preferences as given.

Nevertheless, he did not underestimate the importance of human intentionality, but felt that it had to be explained rather than assumed. Explanations entailed the evolution of social institutions and their interplay with biological and psychological characteristics. He recognizes processes of dual inheritance or co-evolution, where there was evolution and transmission at both the instinctive and the cultural levels. Veblen understands that the process of Darwinian evolution has three important features, namely variation, inheritance and selection, and is open-ended and suboptimal. Along with the assumption of fixed preferences, Veblen also criticizes the widespread assumption in economic theory of a fixed set of technological possibilities. He advocates the belief that technological changes can actually challenge the established institutions and vested interests (Hodgson, 2012). In his book The Theory of Business Enterprise (Veblen, 1904), Veblen distinguishes between industry (making goods) and business (making profits). This dichotomy is an analogy to the earlier analysis in The Theory of the Leisure Class (Veblen, 1899) that there is a distinction between serviceable consumption to satisfy human needs and wasteful conspicuous consumption for status and display.

Such a distinction refers back to the early barbarian society, with the difference between a hunter and a gatherer in the tribe. However, with the development and progress changes occurred in barbarian cultures and when some wealth was accumulated, the members of the community fell into a servile class, on the one hand, and into leisure class, on the other. The leisure class had the power to exploit and did not contribute much to a productive economic activity; its main activity was the demonstration of idleness and the conspicuous consumption. Their contribution was a canon of conspicuous waste comprising of leisure and **conspicuous consumption**. The leisure class pecuniary strength rests in the consumption of a certain type of goods, whereas the leisure class pecuniary strength rests in the performance of some ceremonial roles. As Veblen (1899, p. 59) says, "The basis on which good repute in any highly organized industrial community ultimately rests is pecuniary strength; and the means of showing pecuniary strength, and so of gaining or retaining a good name, are leisure and a conspicuous consumption of goods […] No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption." The main purpose of making distinction based on pecuniary strength is the demonstration of wealth for **signalling social status** in order to maintain it or attained it. By gaining superior social status, a person can attract other economic coalition partners and improve his or her position. As societies evolve, conspicuous leisure and conspicuous consumption, in particular became one of the main activities of the leisure class on one hand, and the emulation of such practices by members of less privileged people on one the other hand. For Veblen, modern leisure class was a propertied non-industrial class, with parasitic character and prescriptive example of conspicuous waste for other classes, and contributing nothing to the productivity of society.

In his later work, The Theory of Business Enterprise (Veblen, 1904), Veblen applies his evolutionary analysis from The Theory of the Leisure Class (Veblen, 1899), drawing analogy in a conflict between businessmen and engineers. For Veblen, businessmen are representatives of vested interests merely in search of profits, whereas engineers are regarded as innovators who are producing valuable goods for people. Businessmen, he argues, perform a predatory role in order to improve their social status, making thereby an analogy to the human instinct of predation described in his previous work. A conflict between businessmen and engineers is for him an inevitable stage in a society progress and society's evolvement is actually the consequence of the process of the conflict between vested interests and existing norms on the one side, and new norms emerged from human instinct of idle curiosity, on the other.

It is worth mentioning that for Veblen predation is not a class struggle, but a phase in the evolution of culture. For him, a predatory phase of culture is attained only when the predatory attitude has become the habitual and accredited spiritual attitude for the members of the group and when the fight has become the dominant note in the current theory of life. The difference between the peaceable and predatory phase of culture is for Veblen a spiritual difference, not a mechanical one, and the change in spiritual attitude is the outgrowth of a change in the material facts of the life of a group. The change comes gradually as the material circumstances favourable to a predatory attitude supervene. Then, Veblen continues (1899, p. 19): "The inferior limit of the predatory culture is an industrial limit. Predation cannot become the habitual, conventional resource of any group or any class until industrial methods have been developed to such a degree of efficiency as to leave a margin worth fighting for, above the subsistence of those engaged in getting a living. The transition from peace to predation therefore depends on the growth of technical knowledge and the use of tools. A predatory culture is similarly impracticable in early times, until weapons have been developed to such a point as to make man a formidable animal." It is upon society itself allowing such circumstances to develop that predatory culture prevails. If the appropriate tools were not allowed and the society did not tolerate them, predation would not succeed. Hence, it is up to people to act and let institutions evolve further to such a stage, where spiritual attitude leads to peaceable phase of culture.

From today's perspective, it is interesting to compare Veblen's position that predation is not a class struggle, with a quite different view by Karl Marx or that of John Maynard Keynes. According to Galbraith (2012a), for Marx, the sole purpose of capitalism is accumulation. The contradiction of capitalism lies in its inability to bring wages above subsistence levels, leaving the proletariat in misery. With Marx, the increasing inequality between capitalists and workers will eventually bring on revolutionary consciousness among workers and their organization under the leadership of the Communist Party. Veblen believes that this is not likely to happen. Keynes, on the other hand, is preoccupied with the slow but steady improvement of the living standard of the working class. Capitalists save and invest, assuming that their children will be the beneficiaries, when in fact the largest share of benefits flows to their employees. The workers, conscious of their modest gains, are largely content to continue to let the capitalists make all the decisions and choose to cooperate with the system rather than to rebel against it. Hence, for Marx, revolutionary consciousness leads to revolution, whereas for Keynes, romantic illusions are likely to prevent it. Unlike Marx or Keynes, Veblen is quite indifferent about a possible tendency of society towards either salvation or upheaval. His actual interest is in the ongoing process of social life, in the character of 'the fight' that he sees as part of an evolutionary process. Hence, the point of accumulation is for Veblen not to advance class interest or larger good, but to establish the ongoing dominance of one party over another. For Veblen, this dominance is not that of the capitalist over worker, such dominance was taken for granted on both sides, but the real fight in order to establish rank and hierarchy within and among the members of the leisure class. Accumulation is therefore only a convenient tool for becoming a part of a leisure class or for those who are already its members in order to improve their social status. It allows them to impose their predatory culture in order to gain some advantage, a dominant role over lower class and a better status.

Veblen further notes that the management of corporations has become separated from the ownerships, and as he stated (Veblen, 1904, p. 54): "In so far as invested property is managed by the methods of modem corporation finance, it is evident that the management is separated from the ownership of the property, more and more widely as the scope of corporation finance widens." This observation has already been viewed as a separation of control and ownership, which later established one of the main features of modern capitalism, namely that the powerful managerial elite or the so-called 'technostructure', to use the term introduced by John K. Galbraith. Such technostructure has become very powerful and influential, especially through the emergence of multinational or transnational corporations and the influence on the market in the process of concentration and centralization of capital. This further increases both the capital and financial power, and influences the politics and society. Consequently, this new technostructure forms new financial elite, new leisure class, new conspicuous consumption and additionally widens the gap between the top and bottom class of the society. Economic inequality is thus only worsening.

1.3 Galbraith and institutionalism

John K. Galbraith's most important work is a trilogy on economics, American Capitalism (Galbraith, 1952), The Affluent Society (Galbraith, 1958), and The New Industrial State (Galbraith, 1967). This core work is upgraded by several other books and articles which are the results of many years of clashes, evaluations and distinction between generally accepted thinking, which he himself describes as a 'conventional wisdom,' and the reality. He believes that the reality in the economy and politics, more than in other areas, shadows social or behavioural choices and personal or group financial benefits. In his last work, The Economics of Innocent Fraud (Galbraith, 2004), he recapitulates themes that he has been working on throughout his career and research.

1.3.1 Conventional wisdom in economics

The first distinctive feature that Galbraith describes in his final work is the renaming of the economic system itself. Because the concept of 'capitalism' evokes the unpleasant history, the term 'market system' was established. Class, price and cost-effective exploitation withdraw to technical system, atomism, universality and Cartesian approach, and effectively release the tension about the class differentiation and its fight. The basics of the growth and distribution remains unexplained, economic democracy becomes so merely a distant concept.

Another feature is the concept of the sovereignty of a consumer. In the market system, it is namely the supreme power on the part of those who buy or not buy; maximum power is given to the consumers. The consumer is supposed to be the final authority to whom the producer should be subordinated; it should vote with his wallet and thus determine the demand curve. In the real world, the producer predominantly determines the prices and the impact on demand using the monopolies, oligopolies, design and differentiation of products, advertising and other psycho-sociological impacts on the public opinion and consumers. The consumer is thus indoctrinated and controlled.

Since the power what to produce shifted from the consumer to the producer, the entire production has also became the base for the measurement of national product. Gross domestic product (hereinafter: GDP) as the core measurement for economy progress is inevitably connected with the incomes, employments, products and services, which enables living and satisfaction. But the ‘fraud of the conventional wisdom’ is that the GDP does not include entire ‘production’ of the society but only the products from the production of material products and services, and is consequently controlled by the producers and its corporations. GDP includes neither education nor literature or art, let alone scientific achievement.

Apparently, the importance of the owners is the next feature which does not go along with the real life. They have only a seeming importance. Namely, large corporations have become the foundations of modern economy, guided by qualified and properly motivated managers. The shareholders are left over with ‘ceremonial annual meeting,’ the shareholders’ assemblies, where they only confirm already determined matters. The supremacy of corporate management was developed, the corporate bureaucracy or the so-called ‘technostructure.’ They are mainly controlled by themselves and so are their tasks and salaries. Shareholders become almost completely subordinated by the powerful management.

The next lucid observation made by Galbraith is the so-called ‘myth’ of the two sectors. There should be an independent private sector and public sector. However, the fact is that the private sector is moving towards the dominant role over the public sector and consequently subordinates it to its interests. Since the management in large modern corporations has a complete authority, it is natural that it wants to extend its role and power into politics and government.

The understanding of the work and a worker in the so-called ’conventional wisdom’ is also very important. People are generally perceived as good and this applies both to those who work hard and with pleasure, as well as to those who are rich and do not really work, but take the advantage of the comfort of rent-seeking and inheritance, use social networks and advantages of personal favours, and exploit public interest for personal interests and profits. The work is understood as something essential for the poor, whereas work avoidance and leisure is recommended for the rich.

For Galbraith, the most prestigious form of deception by conventional wisdom is the world of finance and monetary policy. The deception begins with forecasting the impossible, with the abundance of prognoses and calculations of probability about what will happen in the economy without any tangible value. Nevertheless, the following fact is very obvious: something that is a result of the combination of the unknown, cannot be known. Financial advice and guidance, despite being worthless, may sometimes pay off, but this is inevitably followed by a confrontation with the truth. When a fiasco of speculations occurs, the reaction and the interpretation of stakeholders is always the same: non-personal market forces are to blame. What follows is the rationalization of the businesses, which in reality means dismissing of innocent employees, who have not participated in these financial speculations.

In the prevention of inflation and recessions, the historically ineffective US Federal Reserve (hereinafter: FED) also needs to be mentioned, particularly their minimal impact of setting the interest rates level on the real economy. Namely, the investors will invest depending on the current economic situation, the volume of their potential buyers or how strong the demand for their products is. All this is more important than how low or how high the interest rate is. The role of central banks in terms of influence on the economic cycle is thus overvalued. Their impact on business investments in the economy is small and given too much importance. The expectations of the public regarding the conduct of monetary policy are, in this view, totally irrational. There are many examples of unsuccessful actions of central banks. The most exposed, according to Galbraith, was the FED, which in major crises and recessions was never successful in its actions, even though it was always able to present its relevancy. However, the facts speak differently, from the Great depression onward to the recent financial crisis.

1.3.2 The notion of corporate power

Galbraith considers the notion of power rather important, particularly the economic power accumulated by large corporations and their attempt to influence political decisions, consumer decisions and public opinion. Corporations are not controlled by the market, neither is their production a response to the market demand in the sense that the consumer is sovereign in his or her decisions and dictates the demand. Rather, it is just the opposite. Corporations are in fact trying to control the market, their workers, consumers, public opinion, and politics.

Galbraith further believes that the influence of the market power of large corporations undermines the principle of consumer sovereignty and thus allows corporations to be price makers, rather than price takers. Becoming the price makers, corporations can increase their market power and their production beyond an efficient amount. Corporations could increase prices as high as their market power allows them to, so in such situations of excessive market power price controls can effectively control the inflation. Galbraith notes in The Affluent Society (Galbraith, 1958) that neoclassical economics was correct for the previous period, the times of poverty, but in the present time, we have already moved from the poverty to the affluence, so a completely new economic theory is needed. Namely, with the affluence, corporations must create sufficient consumer demand through advertising, which in turns generates artificial affluence through the production of goods and services on one hand, and ignored public sector on the other hand. The market cannot actually provide enough public goods. Thus, the consequence is underproduction of public goods and overproduction of private goods.

Underprovided public goods lead to weaker education, social and health insurance and services, what results in less mobile working force, weaker human capital, greater economic inequality and poverty, and the impoverishment going on in vicious circles. The overproduction of private goods or overprovided private goods lead to overconsumption, forcing people to buy goods and services that they do not really need. For maintaining the imposed and indoctrinated materialistic standard, people have to take further debt in order to keep in pace. Bigger and bigger indebtedness is also the consequence of stagnant real wages due to increasing bargaining of corporate power towards workers. Such overconsumption in order to maintain aggregate demand also leads to the decline in savings rates, which can cause further problems in the economy. As Galbraith states, the technostructure requires from consumers to buy the goods that are produced: "The process of persuading people to incur debt, and the arrangement for them to do so, are as much a part of modern production as the making of the goods and the nurturing of wants" (Galbraith, 1958, p. 200). One of the proposals by Galbraith is also to limit the consumption of the specific products through consumption taxes as more efficient than labour or land taxes or some other taxation.

2 POLITICAL-ECONOMIC MODEL OF CCC

In this chapter, I develop a political-economic model derived from the ideas of Veblen and Galbraith. The model combines the findings of both authors in integrated and interrelated system of variables that describe how the economy works. The interactions of variables are complex, but there is a clear notion of cumulative and circular causation of those variables.

The first observation that we can make is that variables are interrelated in sequence as causation. One variable influences the next one, and this has influence on the other, forming thus a sequence of causations. The end of the sequence also influences the starting point of the sequence, making thus a circle of causations. When movements and dynamics circle in this circular causation, there are no changes in their values, which can be seen as an equilibrium process. When one of the variables changes its status quo and increases its value or power, this influences another variable in the same sense.

The next observation is that variables magnify and increase from one circle to another. That leads to a non-equilibrium process. The consequence is a cumulative and circular causation 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.

At every point in the process the state and the society can intervene and correct such unsustainable development, but with time, this becomes more difficult due to the fact that some participants become too strong and too influential, and the system too intertwined and too institutionalized. The cumulative process produces institutions that become too big and too alienated from the society and its social well-being.

2.1 Elements of the process of causation (C)

The first step in building a model is to connect all important variables in sequence. The feature of that sequence is causation (hereinafter: C), as it is shown in Figure 1. Variables can be described as building blocks of the sequence, forming a process of the causation. Each building block or a variable influences the next one. I will elaborate on and explain the mechanism of work for each of them.

Figure 1: The process of causation (C)

2.1.1 Society, state and free market

The first variable or a building block is 'Society, state and free market' and is a nexus of the entire system. At the same time, it 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 makes its own original background and starting point through its own history and evolution. Diverse environment conditions and other factors form diverse groups of people and consequently diverse nations and states. The evolution and change take a different path in each of these diverse nations and states, thus forming different institutions. These include formal an informal, from different legal frames of the states such as laws, constitutions and property rights, to different cultural and social features, such as norms, routines, habits, rules, customs, traditions, taboos, sanctions and codes of conduct. All these have exercised different paths in societies and states during various stages of evolution. When reaching the 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 as well as there are some other non-capitalist systems, although they are very rare nowadays. The capitalist system as a state economic system is very complex, with many sub-systems and features that vary from state to state. 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. The interlink feature between the economic system and its markets on one hand, and the state as legal framework provider and regulator on the other hand, also depends on the nature of the institutions and varies from state to state. 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, where the state interference into economy is almost minimized. The first are more predominant in Asia, whereas the later prevail in the Anglo-Saxon world. 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 where the participants can work and compete between each other. The interests of all participants are different and sometimes confronting, but mainly participants are in pursue of their own private interest, so 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.

2.1.2 Corporate power

The perception of power is pretty much lacking in neoclassical economics and their main concern is mostly about the excessive government power hindering the market. With Pressman (2007), for neoclassical economics this can happen when macroeconomic policies try to affect aggregate economic outcomes, or when government regulations keep firms from producing goods at maximum efficiency. In contrast to this mainstream view, the post-Keynesian economists see the power as an integral part of modern economies. The economy is full of large firms that possess a great amount of economic power. They are neither restrained nor controlled by the market, and their production decisions are not responses to the market. There are large oligopolies seeking to control the market and they are mostly successful in doing so. The awareness of the importance of economic power is vital and it has several consequences. First, the economic power developed by large corporations has several undesirable effects, including higher income and wealth inequality, bigger unemployment and slower economic growth, and various social and environmental problems. Second, we need to mitigate the problems that arise from corporate power and constrain the power of the corporation in public interest and on behalf of our civil society and its well-being.

In a modern economic system, big corporations, also named multinational or transnational corporations, are the prevailing economic subjects. This is so because of one of the properties of capitalism and its contradictions, namely, a monopoly or oligopoly. 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 most drastic consequence is an effective exclusion of the price competition. Monopolies change the prices only in one direction, upward. Price competition is replaced by informal agreements and price tracking of the leader in the specific industry. With such exclusion of the price competition in the economies, the fundamental premise of capitalist economics was demolished.

Competition resumed around decreasing of the cost in production at the expense of increasing productivity, and thereby enhancing their gains and their monopoly capital. This is done even at the expense of stagnation of real wages and salaries of the workers and employees. 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. Such a situation can also be attributable to the fact that the rate of surplus value in the production is too large relative to the potential excess rate which can still be sold. But one of the features of the capital is that it constantly reproduces and always finds a proper way for doing that.

Corporate power, financial and monopoly capital for investment of their surpluses also invent plenty of new financial instruments, financialization, liberalization, globalization and other leverages of influence to achieve their goals. Indoctrination of the consumer, with very sophisticated marketing techniques and influence on the consumer are one of the main business activities of corporations. Advertising is developing the emulation and conspicuous consumption by the consumers, thus reinforcing the excessive consumerism with the norm 'keeping up with the Joneses'. 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 and governments, which becomes especially appropriate in financial and economic crises, when private firms and banks call for help and bailouts from the governments. Their premise is the privatization of profits and socialization of losses. Moral hazard is rewarded. When the monopoly capital investments become insufficient, they put pressure on the government for further liberalization and financialization and increase the leverage ratio of the credit economy allowing workers and consumerist higher indebtedness. All this is done for further expansion of capital. The economy can maintain the aggregate demand for a while with such debt leverage drive, but it will inevitably come to a burst of a bubble economy. Such economy is clearly not sustainable.

Corporations acquire economic power in the process of concentration and centralization of capital. They 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 and its participants eventually shift more and more towards imperfect competition and oligopolies.

As described by Robinson (1933; 1953-54), in these oligopolistic industries, firms face downward marginal revenue curves. In order to sell more, they have to sell goods at lower prices. Since consumers pay less, firms lose revenue and have to take into account that, despite greater sales, decreased prices may not yield more revenue. In fact, firms can receive more revenue if they increased their prices and sold fewer goods. However, such imperfect competition can also cause insufficient production, not fully used resources and workers receiving wages less than the value of what they produced. When imperfect competition exists, the marginal productivity theory of distribution fails to hold and labour is exploited by powerful firms. These powerful firms increase their bargaining power towards workers, so that the wage decisions and employment are not determined by impersonal market forces, but by the power of large firms. The next feature of imperfect competition is price discrimination, where firms, due to their market power increase their revenues and profits by charging prices that are based on how much a consumer is willing to pay. This was later upgraded by a new theory of price determination with competitive markets and firms as price takers, and imperfect competition with firms as price makers, who add some mark-up to their production costs. Logically, the less competitive the industry is, the greater the markup is. Similarly, the more firms need funds for expansion, the greater their mark-up over costs is. In this way, firms develop economic power and then, with other already described techniques of influence and leverages on other participants in economy and society, they also increase their overall power.

Galbraith, too, is aware of the notion of imperfect competition. He points out (Galbraith, 1967) that 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. While markets are no longer competitive in the traditional sense, standard economic predictions about a lack of competition have not turned out to be true (Galbraith, 1952a; 1967). It has turned out that large firms have not been driven out of business because of their inefficiency, and that they have not ruthlessly exploited their economic power. In fact, oligopolies have had the greatest increases in efficiency and the most robust economic growth over time (Galbraith, 1973). According to Galbraith, the neoclassical view of the firm describes an earlier period of history and this view fails to explain the current reality. Today, the firms that produce and sell the majority of goods and services are large bureaucracies dominated by professional managers.

Galbraith attributes the rise of modern corporations from small, individually owned and operated firms to the significant economies of scale in production, where most firms face increasing returns. Galbraith also rejects Schumpeter (1942) and the conventional preoccupation with steady-state production in favour of technological change. For Galbraith, firms succeed not by producing goods more efficiently using the current technology, but by pushing the frontiers of technology forward. The technological edge is what gives them a competitive advantage over their competitors and lets them survive and grow. Technological innovation comes with some risk; the result is always uncertain and there is a chance of failure. The complexities of modern technology require a lot of money and, from this perspective, a large size actually protects the firm. Nevertheless, firms cannot take the chance that after undertaking expensive investment there will be no demand for their goods. They have to eliminate the uncertainty of market forces wherever possible in order to succeed. In other words, they have to attempt to control the market rather than being controlled by it. They can free themselves from the market in several ways. Through vertical integration they can take over suppliers and outlet sources and, by developing many diverse products, deal with the consequences of a drastic change in consumer tastes or the aversion of consumers to a particular product. Long-term contracts between producers and suppliers attempt to eliminate the uncertainty of short-term market fluctuations. Probably most important of all, by spending money on advertising, firms can control consumer tastes (Pressman, 2007).

2.1.3 Control over workers, other firms and market

As discussed above, through the process of concentration and centralization of capital, firms grow and acquire a vast amount of economic power. Consequently, they acquire political power and influence in the society. Because of such a process, competitive markets are becoming less competitive with a smaller number of firms. Markets shift from perfect competition markets with many firms, towards monopoly and oligopoly markets with only a few bigger firms as the other extreme, and with many cases in between. When there are only a few firms in the market, the bargaining power of the firms towards workers is bigger. With each step of increased corporate power, the bargaining power of workers decreases, still existing smaller firms follow the market leader, who consequently controls the market. The next chapter will present the empirical facts that corporate power rises every year.

Because of the decreasing power, a worker’s position in the bargaining process with the employer regarding the wage is weak. A worker has to accept a lower wage or be satisfied with the existing one, and cannot expect a rise in line with the firm’s productivity rise or profit. Alternatively, the worker can leave the current job, but the job market is most of the time rather tight. On the one hand, there are fewer alternatives of other firms because of the process of concentration, with firms taking over other firms through acquisitions and mergers, or because of the process of elimination of less successive firms from the market. On the other hand, there are a huge number of already unemployed workers, which makes additional pressure on those that are still employed. The bigger the unemployment 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 use that fact in their advantage. They always take 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 predominantly subordinated and loyal workers who are afraid of losing their jobs.

Bigger and powerful firms control other smaller and weaker firms. Because of their market power, they set the market prices of goods and services and become the price leader 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 due to their operating efficiencies, which forces smaller competitors to lower prices as well in order to retain market share. As these smaller competitors usually do not have the same economies of scale and economies of scope as the price leaders, such an effort to equal the leader's prices may inevitably lead to losses, forcing them to close the business.

The control over workers and other firms also leads to the control of the market. Competitive markets become less competitive with a smaller number of firms in the markets and shifting from perfect competition markets with many firms towards monopoly and oligopoly markets with only few bigger firms. These few bigger firms with huge economic power and as price leaders in their sectors usually collaborate by making mutually beneficiary agreements and forming cartels. The cartels are illegal because these agreements are made informally. Since these powerful firms acquire enormous economic power, they broaden their influence into politics and government, making 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 big 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.

2.1.4 Control over government, public opinion and consumers

When corporations acquire the control over workers, other firms and market, corporations naturally 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 then in the wider environment. The process of control goes from small to bigger, from micro to macro environment. The pace of acquiring control and influence depends on how fast corporations are gaining economic power and vice versa.

The revenues of multinational or transnational corporations are bigger than revenues of some countries. Their influence on all aspects of society is immense. Most viable is the case of US, where the link between the private sector and the public sector is so strong that the US have practically already shifted from parliamentary democracy towards corporate democracy. Namely, the latest decision of the US Supreme Court that individuals are free to sponsor politicians leads only 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 always favours capital. And capital means corporations and rich individuals who influence and control the legislation, politicians and government according to their vested interest.

On the other hand, the state and public sector should counter these large corporations and rich individuals. Post-Keynesians see the state as a source of economic power to counter the power of large business firms. As Galbraith (1967; 1973) points out, there are numerous size efficiencies for firms, which is why we have so many large corporations in developed countries. However, size goes hand in hand with economic power, power over workers, power over suppliers, power over the consumer, power over the more competitive parts of economy, and even power over the state. This power is not mitigated by the market and cannot be controlled unless these corporations are broken up or controlled by other source of power. According to Galbraith, there is only one reasonable solution to this dilemma. The state must counter the power of large firms. If the state does not do so, no one else will. When the state counters the power of a large firm, an independent and educated set of public servants are needed who will not be pressured or coerced by large business firms to make decisions against the public interest. When the state acts to counter the power of large firms, voting and democracy become important despite the fact that voting fails the test of neoclassical rationality. Besides giving credibility to the state, voting also provides an opportunity for middle-income and poor households to put into place the government that serves the interests of the people rather than the interests of the wealthy and powerful. Even though this is certainly too optimistic, given the large number of conservative governments that have been elected throughout the world at the end of the twentieth century and at beginning of the twenty-first century, Galbraith is certainly right about the potential for politics to trump laissez-faire economics in the voting booth and he is probably also right that this is the only way how to control the power of large corporations (Pressman, 2007).

Regarding the question of how far the state should go in the countering of the power of large firms, Galbraith (1973) argues that the development of corporations is not only negative but also positive in terms of technological evolution and improvements. In that sense is more constructive to minimize the vast power of modern corporations, rather than just destroying it. Additionally, government have to support the private sector by encouraging smaller firms and labour unions, and by doing so developed the countervailing power of the state. Countervailing power is thought as a notion of separating up the power in the sense that no one can gain too much power. The state should act as a part of economy and must restrain the power of big corporations analogous to the mode the judiciary restrain the power of the government (Dunn & Pressman, 2005).

The next in the line to control is public opinion. Public opinion is created by various factors, with the media both private and public as the most important one. Private media are already in control and ownership of corporations, whereas public media are controlled by some independent bodies that are mostly delegated by parliaments. Parliamentarians are politicians who are elected with the help of capital. The circle of private influence is thus closed. Corporations and private capital can thus influence private and public media through various techniques, from supposedly independent experts explaining their views on the media, to influential opinion makers and the internal and editors' daily contributions. This all forms public opinion in favour of vested interest of corporations and private capital.

The control over consumers is the most important and the biggest expense for corporations. 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. 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 consumer's decisions through very complex spectre of influencing and indoctrination. They impose the taste, fashion and other factors of consumer decision making. Corporate machinery has the entire spectre of elements in order to persuade the consumer that his or her choice is 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.

2.1.5 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 actually recognize that this control is in reality reversed and producers have power over consumers, especially with the help of marketing and advertising. The concept of revised sequence was developed by Galbraith in his work The New Industrial State (Galbraith, 1967).

In this work, Galbraith explains that future vast investment in technology and vested interests of the technostructure have to be protected accordingly. Instead of that, firms satisfy the demand of the consumers, the corporation ‘‘accommodates the consumer to the goals of the technostructure and provides a climate of social belief that is favourable to this result’’ (Galbraith, 1967, p. 235). In order to ensure that consumers are able to buy goods as well as desire them, the technostructure has vested interest to influence the state to take liability for that: "members seek to adapt the goals of the corporation more closely with their own; by extension the corporation seeks to adapt social attitudes and goals to those of the members of its technostructure. Social belief originates at least in part from the producer. Thus the accommodation of the market behaviour of the individual, as well as of social attitudes in general, to the needs of producers and the goals of the technostructure is an inherent feature of the system" (Galbraith, 1967, p. 217). Galbraith continues that "(state) regulation of aggregate demand is necessary to give certainty to this planning and to protect the technostructure’’ (Galbraith, 1967, p. 229). The corporations and the state are interlinked and the state is actually keener to serve the private sector and private capital than the public sector and the common good. As Dunn and Pressman (2005) state echoing

Chandler (1977), that the growth of the modern corporation is actually observed as a negation of Smith's invisible hand.

Revised sequence would not have such an effect without the presence of another effect, the so-called dependence effect. In his Affluent society (Galbraith, 1958), Galbraith 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 basic demand, like food, clothes, and shelter, new demand has been created by advertisers and the 'machinery for consumer-demand creation' that benefit from increased consumer spending. This exuberance in private production and consumption pushes out public spending and investment. He calls this the dependence effect, a process by which wants are increasingly created by the process by which they are satisfied.

Galbraith ties **consumers' debt** directly to the process of **want creation**: "It would be surprising indeed if a society that is prepared to spend thousands of millions to persuade people of their wants were not to take the further step of financing these wants, and were it not then to go on to persuade people of the ease and desirability of incurring debt to make these wants effective. This has happened (…) The Puritan ethic was not abandoned. It was merely overwhelmed by the massive power of modern merchandising" (Galbraith, 1958, p. 200). Consumer manipulation on the one hand and consumer debt financing on the other hand serve only private capital's vested interests and thus damage public interest and social well-being.

With the dependence effect, Galbraith upgrades Veblen's concept of conspicuous consumption and links it with the revised sequence. By doing so, he connects partly unconscious irrational conspicuous consumption and dependence effect with rational corporation's management of a consumer's response in order to protect the investments and decrease the uncertainty. Corporations are thus not dependent on the known consumer preferences and the consumer demand is also not exogenous, rather, it is driven by institutional processes and subtle persuasions, like marketing, advertising, public opinion and 'independent' experts. The consequence is a dependence effect, where consumers' preferences actually reflect the preferences of corporations' vested interests, and the economy is geared towards irrational goals and nevertheless, towards unsustainable economy.

Consumer demand is shaped by corporate combined resources for **advertising** and consumerism as one of the main leverages or influences on consumers' decisions and as such clearly fostered by corporations. Consumerism can be understood as excessive use or acquisition of goods and services that are actually not needed. One of the reasons why people are subject to such consumerist consumption lies in Veblen's concept of conspicuous consumption.

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 in order to display their superior social and economic status. Conspicuous consumption was first introduced by Veblen in his work The Theory of the Leisure Class (Veblen, 1899), which describes the behavioural characteristics of the *nouveau riche*, the social class that emerged as a result of the accumulation of capital wealth during the Second Industrial Revolution. The new rich apply conspicuous consumption in order to gain status inside their class and its hierarchy. 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. Veblen argues that consumption is used as a way to gain and signal the status. What is important in this concept is the idea that individuals really care about their status in society.

Today, conspicuous consumption is a **socio-economic behaviour** particularly common in poor social classes and in countries with emerging economies. They display wealth or luxury goods and services in order to psychologically combat the impression of poverty and avoid being perceived by the society as poor. As Charles, Hurst and Roussanov (2007) find in their research, conspicuous consumption is not an explicit signal of personal affluence. Rather, it is a sign of belonging to a relatively poor group. 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. Visible spending becomes less important the richer the society becomes. People in poor places want to show off their wealth if they can afford that, but if they cannot, they are willing to take some debt to prevent the impression of becoming poor. The truth is that no one wants to be perceived as poor. Such conspicuous consumption declines as countries, regions, or distinct groups get richer. However, it has to be taken into account that we do not have egalitarian rich societies, but rather sharp economic inequalities, meaning that the gap between the rich and the poor is widening. Of course, in this sense, poor also includes impoverishment, a lower class and, nowadays, a weaker middle class. The point here is that such conspicuous consumption is on the rise, because the economic inequality is rising and the number of economically weaker people is rising, too. The consequence is the incurring debt of consumers.

Conspicuous consumption, like purchasing services and goods just for their own sake, clarifies the psychological thought and dynamics of a consumerism in developed countries, as well as in emerging economies. It can also explain the rise in different types and amount of services and goods that people believe are essential for living. 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.

Another aspect is the **ideology of consumerism**, which is a fundamental leverage of the mainstream economics. This ideology of consumerism has in several decades, continually evolved and developed into a very sophisticated and complex system, based on its group dynamics and the dynamics of the individual consumer. According to the interpretation of Salecl (2010), an individual is a consumer, placed in front of the ideology of choice. In capitalism, the choice becomes the dominant ideology. Capitalism itself is based on the idea that anyone can be successful. Everything is possible, even the poor could become rich, which offers the necessary optimism in the society. Psychoanalysis, however, shows that the majority of choices are not made on a rational level, but on the unconscious. It is a choice based on what an individual thinks that others will choose or how it will look in the eyes of others. The power of the capitalist ideology, which stresses the ideology of choice, makes people passive, turning them inwards instead of outwards as criticism of the society. With this, the state of the society is reinforced, rather than urged to seek a proper solution.

A by-product of this ideology of choice is a sense of guilt and responsibility of an individual for something which he or she cannot be held responsible for. An individual cannot be held responsible for all dimensions of his or her life. More and more people cannot decide for the fear of loss, when you choose one but lose the other. As a worker, an individual is also constantly under the pressure that he or she does not fulfil the working standards. What is always present is the fear that one might lose a job, or that someone else in the group will be promoted instead. Cruel rivalry is present all the time. As a result of technological development, there are always fewer people needed in the production, but on the other hand, it is necessary to convince people that they are still eager consumers. Capitalism can work only if the individual is perceived as free, the one who can constantly choose and participate in democracy. However, because of being passive and turned inwards, the individual is not considered as an alternative to the system in which he or she lives. This creates the environment, in which an individual is not engaged with the society, but feels alienated from the decision-making.

Evolutionary psychology also explains another view of conspicuous consumption as a **costly signal**, comparable to costly signals in other animals and demonstrating a person’s good socio-economic quality and his or her intention to attract economic coalition partners and sexual mates. Iredal and van Vugt (2011) argue that altruism, for example, does not need to work directly as a process of 'I'll scratch your back and you scratch mine', but that it may have evolved because it signals underlying qualities about the individual that are important to others. Those who signal altruism may hence increase their fitness through prestige and mating opportunities. It is important for humans to be seen, and to compete to be seen, as altruistic. They show that there are preferences towards altruistic individuals as mates, especially by females.

The concept of signalling a costly signal is known also as a **handicap principle**. It was developed by Amotz Zahavi and explains how evolution may guide to honest or reliable signalling between animals which have an obvious motivation to bluff or deceive each other, or merely to show a costly signal and improve its status and the chance of reproduction. As described by Zahavi (1997), in order to be effective, signals have to be reliable, and to be reliable they have to impose a cost, or handicap, on the signaller. Such reliable signals must be costly for the signaller, costing him or her something that could not be afforded by a subject with less of a particular trait. The receiver of the signal knows that it indicates quality, because inferior quality signallers cannot afford to produce such wastefully extravagant signals. Zahavi also demonstrates that, when an animal acts altruistically, it handicaps itself, assuming a risk or enduring a sacrifice not primarily to benefit its kin or social group, but to increase its own prestige within the group and thus signalling its status as a partner or rival.

An analogy of such handicap principle can be made with a human behaviour. The humanly version of handicap principle is a conspicuous consumption with a handicapping behaviour for signalling and gaining a better status or merely maintaining it. Corporations employ all resources in order to protect their investment and maintain sufficient demand from consumers. They use complex techniques of advertising and influence on public opinion and the media. Advertising and marketing are, as described above, primarily activities of corporations and one of their highest expenditures. Miller (2009) used 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, where 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 simple conversation. Corporations and their marketing are still inclined to use simplistic models of human nature that are unaware of advances in evolutionary psychology and behavioural ecology and economy. These marketers, thus still believe that premium products are bought to display wealth, status, and taste, and so they miss the deeper mental traits that people are already wired to display, traits such as kindness, intelligence, and creativity.

Status-seeking can also be **risk-seeking behaviour**. An interesting view on the risk-seeking behaviour is presented by Capra and Rubin (2011). They argue that an evolutionary approach may also explain differences between groups such as males being less risk-averse than females, since males have more variable reproductive success than females. Although unsuccessful risk-seeking may limit reproductive success for both sexes, males may potentially increase their reproductive success much more than females. This explanation can perhaps explain why some people enter into risky business investments or purchases. It is their status-seeking internal drive that pushes them into such risky behaviour. Their real motivation is to prove themselves in their environment and in their social circle, and to achieve better reproductive results. However, the motivation that is driven by the human instincts is not always very rational. Again, status-seeking can be risk-seeking behaviour that does not pay off in return.

Dependence effect and revised sequence have shown to be most powerful corporate tools in today's economy. Corporations are using their corporate power to control workers, their competitors, the market, government, public opinion and, consequently, consumers. Through advertising, marketing, public opinion and opinion makers they succeed to reverse the classical view of consumer-production relationship, namely that the consumer is the one who controls the producer. What is true is just the reverse situation, where the producer and corporation control consumer and his or her decision choices, the revised sequence. Such 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 due to increasing corporate power and increasing economic inequality, are eager to maintain or obtain their social status; in many cases, not even to improve their social status, but merely to maintain the existing standard or, in many cases, to hide their poverty or 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 consumptive debt and therefore non self-liquidating. It is not an investment that s 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 change their paradigm regarding selling products for displaying wealth, status and taste with products or services that imply some deeper mental traits, such as kindness, intelligence and creativity.

2.1.6 Rising household debt and public debt

There is a clear mechanism of transmission or a process of causation of how increasing corporate power causes rising household debt and public debt. First, the increasing corporate power leads to increasing financial liberalization and globalization, increasing marketing and, at the same time, to increasing consumerism and consumption. Second, these increases lead further to decreasing or stagnant real wages, lower taxes, lower budget income and bigger social transfers. Third, this causes a deficit in government balance of payment. Fourth, the aggregate demand falls. Fifth, public debt and household debt rise. Last, the income inequality and wealth inequality rise, too.

The corporations use their increasing corporate power to influence politics and governments in order to obtain '*laissez faire*' markets, where government presence in the market and in the economy is only minimal. Such a free market is, of course, beneficial for corporations which have already obtained huge economic power. With the free market, where the state regulators are not efficient due to politicians' lack of enthusiasm or, more precisely, due to their interlink with the corporate vested interest, the corporations increase their power. They make constant pressure on the government, requiring fewer market regulations, further financial liberalization and deeper and wider globalization. The only historical period, in which such a *laissez faire* market was more controlled, was the period from the Great depression to the 1970s. In that time, corporate power was weaker, capital did not make big gains, and the economic inequality was less evident.

Since the mid-1970s, the financial liberalization and *laissez faire* market have taken power again. And, that would not have been possible without the help of politicians. They have imposed the policy of supply-side economics and immense financial liberalization by arguing that lower taxes for higher incomes and corporate taxes actually help the economy by bigger investments from rich individuals and corporations which gain enormous inflow of money from these tax reductions. What actually happened is the so-called trickle-down economics. It turns out that the wealth from the rich does not really trickle down to improve the economy and boost the investments, but rather trickles down to tax havens.

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, causes the income inequality in favour of the rich, with almost entire surplus of economic growth and capital gains going to the upper class. The middle and lower class 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, over the time, the norm 'keep up with the Joneses' pushes the ladder higher and higher. Thus, it is the environment formed with the help of corporations and their 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. Because the aggregate demand, particularly in the US, is driven mainly due to 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 the increase in the income of the top and the income inequality gap, the fall in the aggregate demand causes an increase in borrowing, both the government and household's. Public debt and household debt are on the rise.

The consequence of a rising public debt, which 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, 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 in the stock markets. This differential effect is also present in the case of tight monetary policy with higher interest rates. Under these circumstances, the rich benefit again because they can lend their money at higher rates and make profit, and, at the same time, protect 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 or extreme countercyclical policies, the strongest part always profits. And the strongest parts of economy are corporations and rich individuals, which makes the inequality in the society only bigger.

2.1.7 Inequality and poverty

Rising corporate power accounts for rising both income and wealth inequality. Because of the influence of corporate power on workers, markets, politics, government and society, and their increasing bargaining power towards 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, as well as reduced taxes that cause budget deficits and, reduced social transfers, fewer investments in education and human capital, less social mobility and, consequently, a vicious circle of poverty entrapment. Then, the rising corporate power leads to increased consumerism and consumption, which results in increased consumptive debt and increased household debt due to the stagnant real wages and increased borrowing debt of the consumers.

Excessive consumerism and excessive consumption are also the cause of overprovided private goods and underprovided public goods, which reinforces inequality, impoverishment and poverty. As stated by Galbraith (1958), technological progress does not reduce poverty from itself; rather, sometimes technology itself is the cause of poverty. The effect of increasing the production of private goods and decreasing of public goods is actually a state of private wealth and public impoverishment or poverty. In addition, more supply of private goods produce a decrease of prices and less supply of public goods, in particular for households with lower income, produce an increase of prices. Dunn and Pressman (2005) stated 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 a proper education, health services and other public services. They are further deprived to get proper managerial skills and jobs or some positions in the government structure. Consequently, they cannot improve their economic and political positions, so they stay trapped in this vicious circle of poverty for generations. But, a wealthy society can do better with providing public goods by diverting public funds from private sector towards public sector, especially the poor.

There is also an interesting aspect how democracy is related to redistribution and inequality. The usual models of democracy presume that median voters are employing their voting rights in democratic system to reallocate funds from the wealthier towards themselves. If the difference between the wealthier and the median voter become bigger, the redistribution should be bigger, or more precisely, when the median voter will be poorer, he or she will be keener to reallocate from the wealthier towards herself or himself.

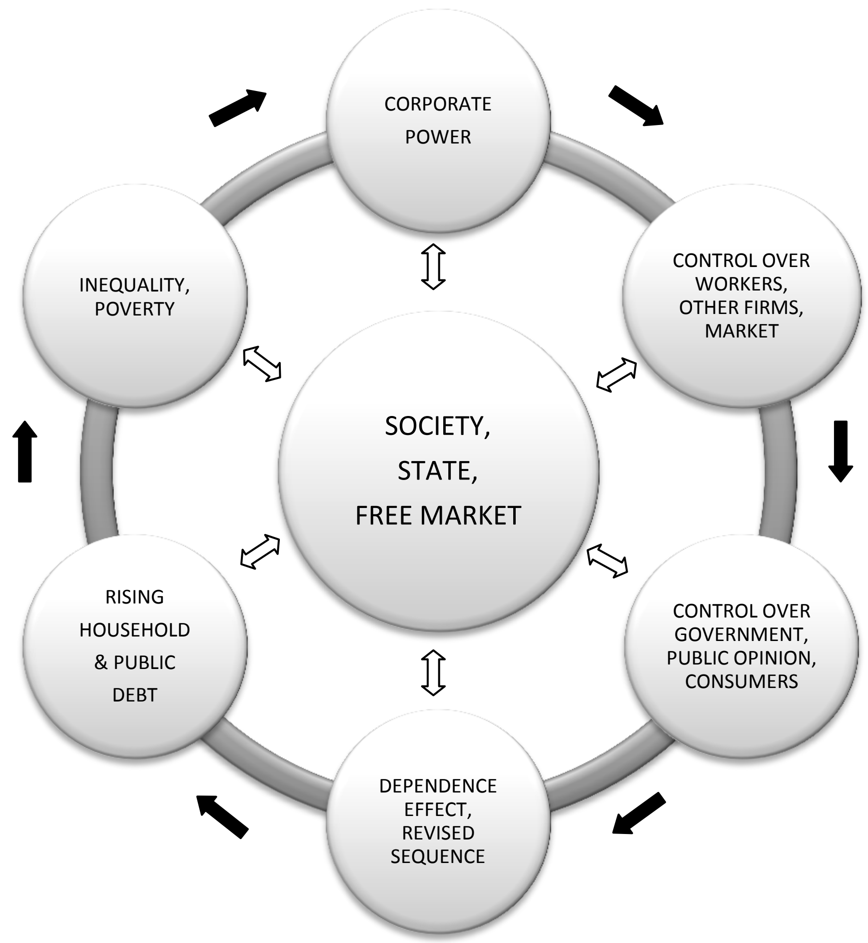
The study (Acemoglu, Naidu, Restrepo, & Robinson, 2013) shows that there is a limited effect of democracy on inequality, thus not confirming this standard model of democracy. Democracy does not seem to affect inequality much. They also claim that inequality tends to increase after democratization, when the economy has already undergone significant structural transformation. The reason for all 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 depend not only on the ‘de jure,’ but also on the ‘de facto’ distribution of power. Powerful elites who see their de jure power eroded by democratization may sufficiently increase their investments in de facto power, like controlling local or state law enforcement, lobbying, or capturing the party system. This enables them to continue their control of the political process and prevent the impact of democratization on redistribution and inequality. Although democracy may not be fully captured, it may be seriously constrained by either other de jure institutions, such as constitutions, judiciaries, conservative political parties or some other radical political parties or civil initiatives, or by de facto threats of coups, capital flight, or widespread tax evasion by the elite.

2.2 The process of circular causation (CC)

In the second step of modelling, I continue the process of causation discussed in the previous chapter with the process of sequence going into circular causation (hereinafter: CC). As shown in figure 2, the starting point of that process is a variable 'corporate power,' with a variable 'society, state and free market' as a nucleus of the whole process. The society, state and free market are the nucleus of the entire system because of their predominant role in intervention in or influence on almost everything in the system.

The process is circular because the elements of last variable of the sequence, the inequality and poverty, enter again at the beginning of the process of causation. These elements are workers and other participants who enter in the production system of corporations.

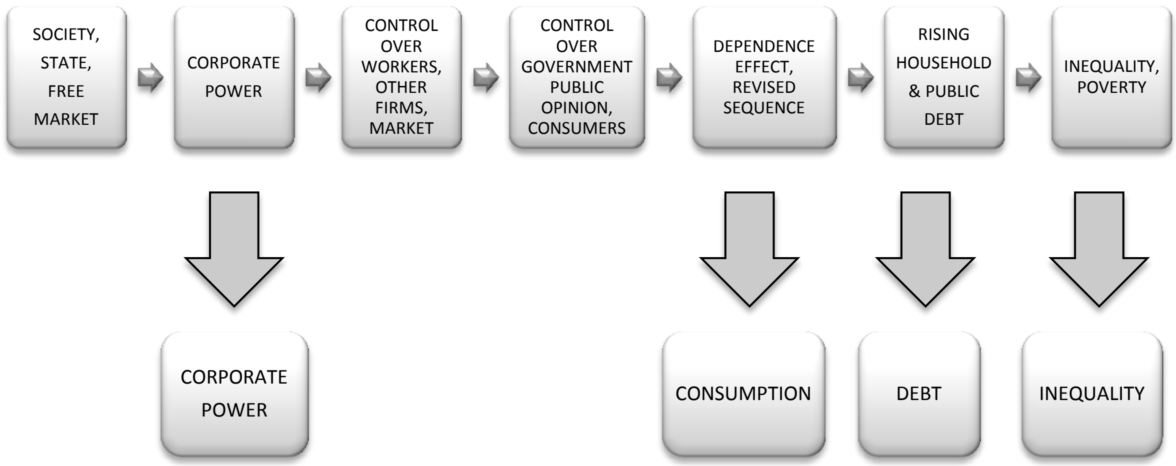
Figure 2: The process of circular causation (CC)



2.3 The determination of the main variables

In order to test the model and its qualitative observations and analyses, we have to observe more viable data that this model is producing. The whole sequence of variables can be translated into four main variables which are quantitative. They can be measured and observed in a real life. As shown in figure 3, these four variables are: corporate power, consumption, household and public debt, and inequality.

Figure 3: Four main variables of the process



2.3.1 Corporate power

The first variable, the corporate power, represents the power of corporations or transnational corporations (hereinafter: TNC) or multinational corporations. The United Nations Conference on Trade and Development (hereinafter: UNCTAD), has done an analysis of the evolution of the composition of the world's top 100 largest non-financial TNCs and top 50 non-financial TNCs from developing economies. Using quantitative measures, they showed the indicators of both the **growing economic importance of TNCs** and their potential in global activities. They found out, that between 1990 and 2003, the values of assets of foreign affiliates of the world's TNCs had increased by a factor of five, and sales and employment had multiplied respectively by three and two. At the same time, world gross domestic product (GDP) in current prices increased by 160 per cent (UNCTAD, 2007).

Here are some more empirical facts and observations. By the early 1990s, there were an estimated 37,000 TNCs in the world, with 170,000 foreign affiliates. Out of these, 33,500 were parent corporations based in developed countries. In 2006, there were an estimated

77,000 TNCs in the world, with more than 770,000 foreign affiliates. These affiliates generated an estimated $4.5 trillion in value added, employed some 62 million workers and exported goods and services with the value of more than $4 trillion (UNCTAD, 2006; UNCTAD, 2007).

This report further argues that even those figures probably understate the role of TNCs in the global economy, both because of measurement difficulties and because firms carry out their transnational activities through a variety of non-equity arrangements, like subcontracting, franchising, licensing etc., as well as through the formation of strategic alliances. These forms of international expansion also occur with little or no FDI, and are therefore only partially captured by FDI data or by firm-level data defined by equity participation.

In 2004, the top 100 TNCs accounted for 11 per cent, 16 per cent and 12 per cent respectively of the estimated foreign assets, sales and employment of all TNCs operating in the world, therefore playing a major role in international production and trade. In the ranking list, General Electric, Vodafone and Ford Motor headed the list, jointly holding about $877 billion in foreign assets, corresponding to nearly 19 per cent of total foreign assets of the top 100 largest TNCs (UNCTAD, 2006; UNCTAD, 2007).

The report UNCTAD (2007, p. 4) further states that, in 2004, 85 per cent of the top 100 TNCs were headquartered in the Triad (European Union, Japan and the U. S.), with TNCs headquartered in the United States dominating the list with 25 entries. Five countries, the United States, the United Kingdom, Japan, France and Germany, accounted for 73 per cent of the top 100 firms, while the EU alone represented 53 per cent of all entries.

Some more indicative data about economic power were illustrated by Roach (2007). Based on Global 500 (Fortune, 2001), he shows that the **value of capital assets** owned by the world’s 50 largest corporations increased by an astonishing 686 per cent between 1983 and 2001. The next indicator of assessing corporate power is the **industry concentration ratio**, calculating a percentage of total industry receipts, where the most common concentration ratios is based on the largest four firms. A four-firm concentration ratio of 0.86 means that the largest four firms in the industry account for 86 per cent of all industry receipts. Using a rule of thumb, when the four-firm concentration ratio in an industry is above 0.40, the industry is considered to be an oligopoly**,** dominated by a small number of powerful interrelated firms. The results are based on US Census Bureau (2002) and show that industry concentration ratios in the United States for 2002 indicate that 12 out of 18 industries were oligopolistic, with four-firm concentration ratio in an industry above 0.40. That means that 66.6 per cent of industries were oligopolistic, which shows how the market operates in imperfect competition, where the corporate power prevail.

The next indicator of corporate power is their **influence on governments** through political donations and direct lobbying. According to the Center for Responsive Politics (2014), the statistics for the United States show that 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. Lobbying expenditures relate to about $6.6 million for every member of the Congress. These figures are most likely underestimated as many lobbying expenses are very hard to track.

In their study, Anderson and Cavanagh (2000) examine the **economic and political power of the world's top 200 corporations**. They conclude that the widespread trade and investment liberalization have contributed to a 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. Their key findings are: **firstly**, out of the 100 largest economies in the world, 51 are corporations; only 49 are countries (based on the comparison of corporate sales and country GDPs). **Secondly**, the Top 200 corporations' sales are growing at a faster rate than overall global economic activity. Between 1983 and 1999, their combined sales grew from the equivalent of 25.0 per cent to 27.5 per cent of World GDP. **Thirdly**, the Top 200 corporations' combined sales are bigger than the combined economies of all countries minus the biggest 10. **Fourthly**, the Top 200 corporations' combined sales are 18 times the size of the combined annual income of 1.2 billion people (24 per cent of the total world population) living in 'severe' poverty. **Fifthly**, while the sales of the Top 200 are equivalent of 27.5 per cent of the world's economic activity, they employ only 0.78 per cent of the world's workforce. And **sixthly**, between 1983 and 1999, the profits of the Top 200 firms grew 362.4 per cent, whereas the number of people they employ grew by only 14.4 per cent. This clearly shows that the growing power of private corporations is becoming a central issue. The main beneficiaries of the market-opening policies of the major multilateral institutions over the past decade and a half are precisely these large corporations. Such growing private power has enormous economic consequences, but the greatest impact may be political, as corporations transform economic clout into political power. The consequence is that democracy is undermined.

Because **TNCs are interlinked** in such a complex way, it is hard to see the reality. Namely, in the reality, they are even more connected due to various business agreements, owning of each other's shares, contracted associations etc. Free competition market is in reality even more close to monopolies, duopolies and oligopolies. In order to clarify this, Battiston, Glattfelder and Vitali (2011) conducted a study of complex systems. They used a database of 37 million companies and investors worldwide, both financial and non-financial. They pulled out 43,060 TNCs (from OECD definition), linked by share ownerships. After constructing a model of which companies control others through shareholding networks, linked with each company's operating revenues, they map the structure of economic power. The study has shown a **core of 1,318 companies** with interlocking ownerships, where each of 1,318 companies has on average connections to 20 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. Such network control is much more unequally distributed than wealth. In particular, the top ranked actors hold a control that is ten times bigger than what can be expected on the basis of their wealth. 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.

The above shows that 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 regulation, 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.

2.3.2 Consumption, household debt and public debt

The second variable, consumption, and the third variable, household and public debt, are economic indicators that are very well known. For this reason, in this section, I do not provide an additional explanation of them, as they are presented in the next section, together with the empirical data needed.

2.3.3 Inequality

The fourth variable is inequality. Economic inequality is mostly considered as a gap between the rich and the poor or the rich and the rest. This gap can be observed through income and/or assets. It can be measured in different ways. The most common way is by Gini coefficient as a measure of income inequality. A Gini coefficient of zero shows perfect equality, where everyone has the same income, whereas a Gini coefficient of one shows maximal inequality, where only one person has all the income. Thus, a low Gini coefficient shows a more equal income distribution, while a high Gini coefficient shows more unequal income distribution. This coefficient will be used in the next section.

There is a period of flat or stagnant wages, which only reinforces economic inequality. As Mishel and Shierholz (2013) show, the weak wage growth in the US in the period between 2000 and 2007, combined with the wage losses for most workers from 2007 to 2012 means that between 2000 and 2012, and despite the productivity growth of nearly 25 per cent, wages were flat or declined for the entire bottom 60 per cent of the wage distribution. A lost decade for wages comes soon after the **decades of inadequate wage growth**, where for the entire period since 1979, with the only exception of a strong wage growth in the late 1990s, wage growth for most workers had been weak. The median worker saw an increase of only 5.0 per cent between 1979 and 2012, despite productivity growth of 74.5 per cent, while the 20th percentile worker saw a wage erosion of 0.4 per cent and the 80th percentile worker saw a wage growth of only 17.5 per cent.

The next feature is that **inequality increases due to a decrease in taxes**. Fieldhouse (2013) argues that market-based income inequality, as measured by the Gini index, rose by 23.2 per cent between 1979 and 2007, while post-tax, post-transfer inequality rose by 33.2 per cent, implying that roughly 30 per cent of the rise in post-tax, post-transfer inequality is attributable to erosions in the redistributive nature of tax and budget policy.

For the past half century, income inequality in OECD countries has been at the highest level. The average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent across the OECD, up seven times compared to 25 years ago. As the OECD (2011) finds out, the Gini coefficient, stood at an average of 0.29 in OECD countries in the mid-1980s, but by the late 2000s, it increased by almost 10 per cent to 0.316. It rose significantly in 17 out of 22 OECD countries for which the long-term data series are available.

Further sharp distinction is the **wealth and assets owned**. As Credit Suisse Research Institute (hereinafter: CSRI) illustrates in their Global Wealth Report 2013 (CSRI, 2013), the bottom half of the global population owns less than 1 per cent of total wealth. In sharp contrast, 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.

The top 1 per cent has only increased its wealth and income in the last few decades. Piketty and Saez (2003) show that, in the United States, the share of total pre-tax income accruing to the top 1 per cent has more than doubled, from less than 10 per cent in the 1970s to over 20 per cent today. Piketty and Saez (2011) further argue that there has been a **strong correlation between cuts in top tax rates and increases in top 1 per cent income shares** since 1975 in 18 OECD countries for which the top income share information is available. However, top income share increases have not yet been translated into a higher economic growth.

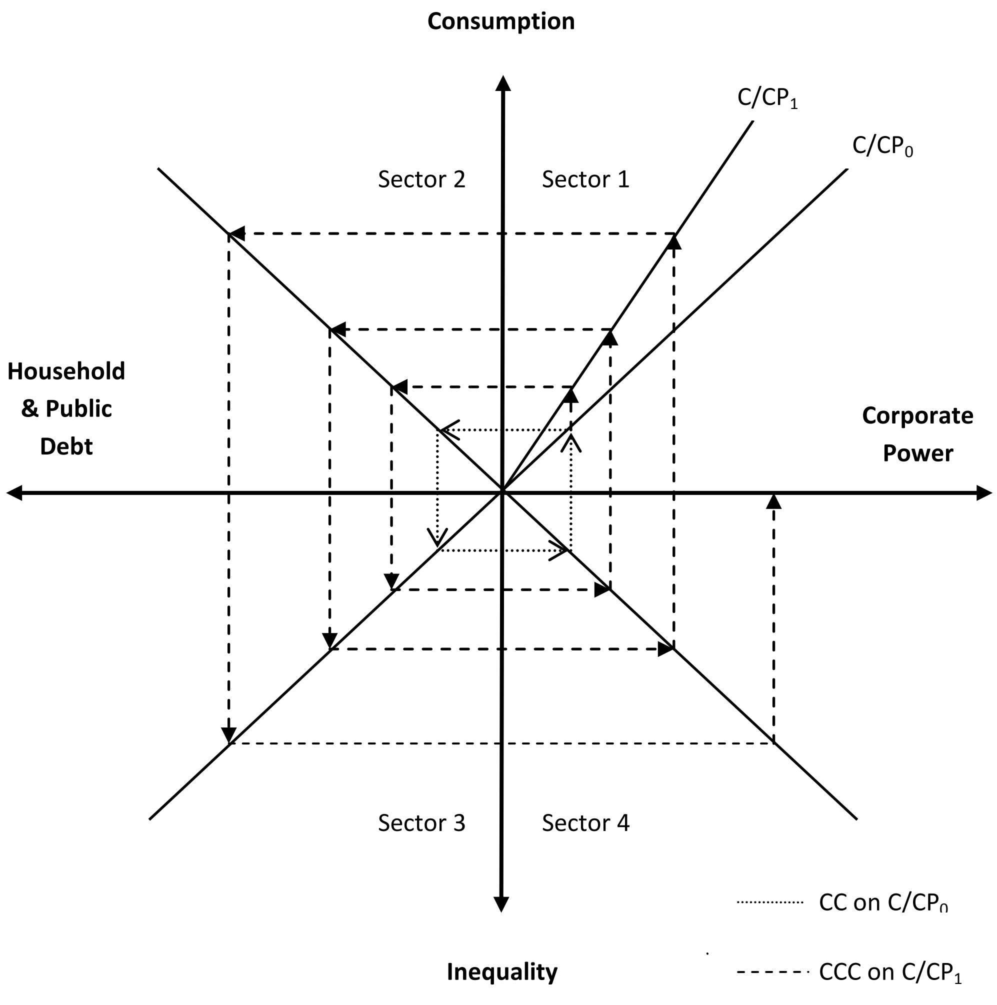
The consequences of high inequality are **slow economic growth** and **political instability**. Cummins and Ortiz (2011), who conducted a study for UNICEF, find out that the top 20 per cent of the population enjoys more than 70 per cent of total income, contrasted to two miserable percentage points for those in the bottom quintile in 2007 under PPP-adjusted exchange rates; using market exchange rates, the richest population quintile gets 83 per cent of global income with only a single percentage point for those in the poorest quintile. The study also shows that countries with rising inequalities tend to grow more slowly over the measured period 1990-2008, so there is a strong negative correlation between high inequality and high growth. The next observation is that inequality is strongly correlated with political instability.

The next consequence of high inequality is **higher unemployment**. Galbraith (2012b) argues that more egalitarian societies tend to have lower steady-state unemployment. They also tend to have higher rates of technical progress and productivity growth in part by importing advanced sectors and exporting or closing down backward ones.

2.4 The process of cumulative and circular causation (CCC)

In the final step, I use four main variables in a four-dimension graph (Figure 4). 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 circular causation is in equilibrium. With the increase in the corporate power as C/CP_1 the curve in sector 1 shifts upward and therefore generates a circular increase in all four parameters. The movement is in time cumulative with upward trend in all four variables. The state of non-equilibrium is formed.

Figure 4: The process of cumulative and circular causation (CCC)



2.4.1 Accumulation process

For variable corporate power, an indicator developed by UNCTAD is used. It shows combined values of foreign assets owned by TNCs, their foreign sales and foreign employment. Due to UNCTAD (2006; 2007), combined indicators of foreign assets, foreign sales and foreign employment in the period from 1993 to 2003 for 100 largest non-financial TNCs show a constant increase. Foreign assets multiplied by the factor of three, foreign sales more than doubled and foreign employment grew by 135 per cent. Corporate power increases in time.

For a variable consumption, empirical data from Organisation for Economic Co-operation and Development (hereinafter: OECD) National Accounts (OECD, 2014) are used. In the period from 1980 to 2005, there was a growth of household private final consumption expenditure per capita on average by 2.04 per cent in OECD countries. From 1975 to 2011, the growth was by 1.87 per cent. The average share of total private expenditure in GDP has been at 60 per cent in OECD countries, with varying in the range from 46 per cent to 74 per cent. Private consumption growth on average increases all the time.

For a variable debt, empirical data from OECD National Accounts (OECD, 2014) and Cecchetti, Mohanty and Zampolli (2011) are used for a group of 18 OECD countries for which the data are available (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, the UK and the US). In the period from 1980 to 2010, the household debt, as a percentage of GDP, increased on average from 39 per cent in 1980 to 65 per cent in 2000, and to 94 per cent in 2010. Government debt increased on average from 43 per cent in 1980 to 72 per cent in 2000, and to 97 per cent in 2010. The third part of total debt, the non-financial corporate debt, also increased, on average from 85 per cent in 1980 to 112 per cent in 2000, and to 126 per cent in 2010. All three categories of total debt increased in time.

For a variable inequality, empirical data from OECD National Accounts (OECD, 2014) are used. Gini coefficient for income inequality has shown that in the period from 1980 to 2005, income inequality increased from 0.29 to 0.32, in line with the average in OECD countries. There is already a huge wealth and assets inequality. Empirical data from Global Wealth Report 2013 (CSRI, 2013) show that the bottom half of the global population owns less than 1 per cent of total wealth; in contrast, 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. Economic inequality thus increases in time.

After presenting that all main variables increase in time, I will elaborate on how they are interlinked. There is a clear notion of causation process, where one variable influences the other through transmission mechanism. I will present this process in all four sectors.

2.4.2 Transmission mechanisms between corporate power and consumption

In the first sector, the corporate power influences the consumption. 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.

As shown in the empirical work by Benhabib and Bisin (2011; 2002), **advertising directly affects the consumer's preferences**. Corporations exploit their power through advertising in order to create new consumers' needs. These needs are false. Individual's preferences, which are in part a social phenomenon, are influenced by advertising. As a consequence, profits increase, consumer spending rises, and so does the supply of labour. Namely, consumers reduce the time devoted to leisure activities, or at least curtail the increase in leisure that would accompany productivity and wage increases. Leisure itself is transformed into a form of consumption. Also, a mere distinction of consumption and leisure is blurred, as individual's preferences are manipulated to choose forms of leisure that are complementary to consumption. Such patterns of behaviour, characterized as the 'work and spend cycle' and the 'commodification of leisure,' reduces consumers' overall welfare when welfare is evaluated according to the consumers' ex-ante preferences, i.e. before advertising takes place.

The empirical study by Molinari and Turino (2013) shows that **advertising has a relevant impact on aggregate consumption** and, through consumption, on other macroeconomic aggregates. In 2005, corporations spent 230 billion dollars on advertising their products in the U.S. media, which is approximately 1,000 dollars per citizen. The U.S. 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. Corporations have realized that the demand they face is not an exogenous product of consumers' preferences, but can be tilted towards their own products through advertisements. When advertising affects corporations' sales by attracting new customers and thus expanding the demand for the products, the impact on consumption is sizeable. The aggregate consumption is thus the main avenue by which changes in the scale of advertising expenditures affect the broader economy. The mechanism operates through a work and spend channel: because of advertising people work more to be able to afford greater consumption. The perceived need for higher consumption is due to advertising signals they are exposed to. Because of this mechanism, advertising enhances the demand for consumption goods.

The effectiveness of corporate advertising in enhancing the demand is also supported in a comprehensive empirical survey of over 400 empirical studies conducted by Bagwell

(2005). Similar findings are presented in the next survey of studies conducted by Ambler and Vakratsas (1999). They reviewed more than 250 journal articles and books in order to establish what is and should be known about how advertising affects the consumer. Advertising effects are various and complex, so the effective advertising strategies have to be implied in order to target the market. The general conclusion is that advertising successfully affects consumers to spend more.

How influential and persuasive the marketing is and how this can lead towards unsustainable consumption, is also shown by Mont and Power (2009). Next 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 nature of needs that ought to be satisfied by the advertising industry is changing, too. Hence, the basic needs of most people in modern industrialized economies are largely fulfilled; there is a need to continuously create new needs. In this sense, the role of technological development and innovation is irreplaceable. Developers from a number of IT and white goods companies have revealed that, often a technical solution is invented and then advertising and marketing are used to create the need for this product, which leads to increased consumption of material inventions.

2.4.3 Transmission mechanisms between consumption and debt

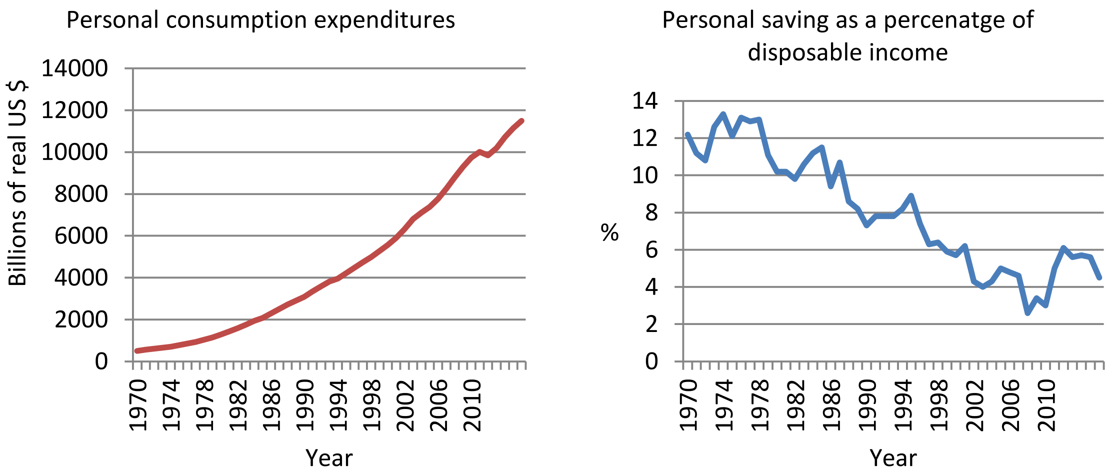
In the second sector, consumption influences household debt and public debt. There are multiple transmission mechanisms working here. The **first** is that due to corporate power and its bargaining power towards worker on the one hand and influencing the government to dismantle the unions and worker’s 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.

In the U.S., personal consumption expenditure grew sharply in the period from 1970 to 2012 (Figure 5). In the same period, personal consumption expenditure outpaced personal disposable income, causing a drop in personal saving as a percentage of disposable income (Figure 5). The reasons for the decline in the personal savings rate are: more personal consumption and higher mandatory transfers, like income taxes and security programs.

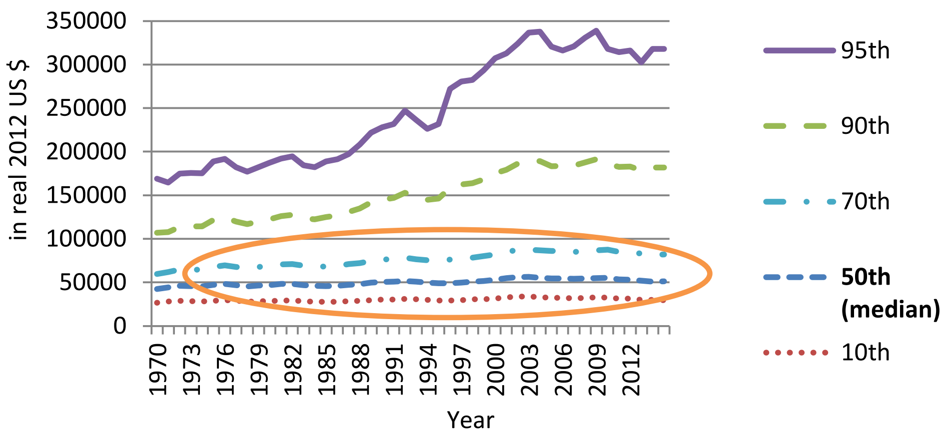
Figure 5: Personal consumption expenditures and personal saving as a percentage of disposable income in the U.S.



Source: U.S. Bureau of Economic Analysis, 2014a.

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 (Figure 6).

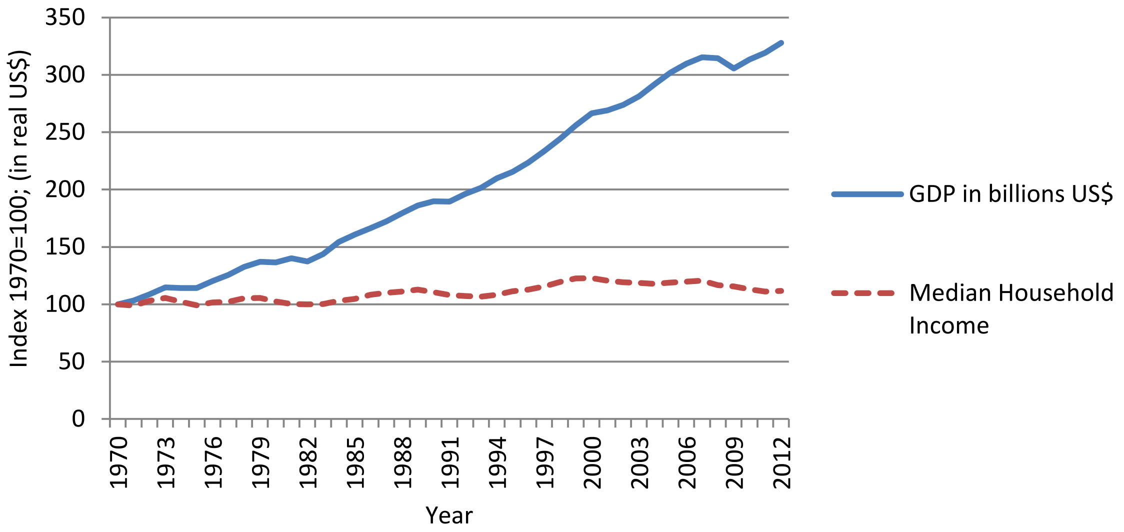
Figure 6: Household income received by percentiles in the U. S. (1970–2012)



Source: U.S. Census Bureau, 2014.

A dramatic erosion of income is best illustrated in Figure 7. When compared to the growth of GDP (hereinafter: **g**), the growth of the median household income (hereinafter: **mhi**) illustrates a widening gap in the period from 1970 to 2012. Median household income stalled in that period, whereas GDP significantly grew. There are immense implications of the fact that **mhi** < **g**. It means that people's wealth is stagnating and disappearing. 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.

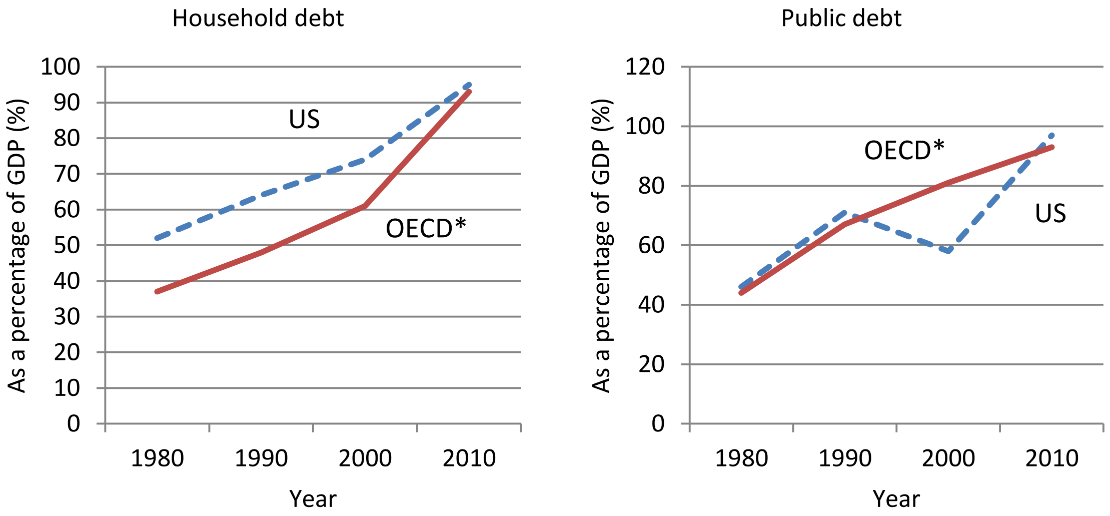
Figure 7: GDP and median household income in the U. S. (1970–2012)



Source: U.S. Bureau of Economic Analysis, 2014b; U.S. Census Bureau, 2014.

Such a rise in borrowing is illustrated in Figure 8, where the household debt shows a steady upward trend in the period from 1980 to 2010, both in the U.S. and OECD countries. As a consequence of people's indebtedness, more people need social help. Rising social transfers lead to a further rise in public debt (Figure 8), which is already increasing due to the consequences of financial liberalization, supply-side economics and the bailouts of private capital.

Figure 8: Household debt and public debt in the U. S. and OECD countries



Note. * Countries included in simple average: the United States, Japan, Germany, the United Kingdom, France, Italy, Canada, Australia, Austria, Belgium, Denmark, Finland, Greece, the Netherlands, Norway, Portugal, Spain, Sweden.

Source: OECD, *OECD.StatsExtracts*, 2014; S. G. Cecchetti, M. S. Mohanty, & F. Zampolli, *The real effects of debt,* 2011.

2.4.4 Transmission mechanisms between debt and inequality

The third sector is represented by total debt, both household and public, 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.

There was more income and wealth equality before the financial liberalization started in the mid-1970s. However, inequality increased only after corporations had become powerful enough to influence the governments and public in order to lessen the legislation and decrease corporate and higher income taxation. Thus, the corporate power managed to stall the workers' income, whereas higher incomes have surged in the last decades. Unequal income distribution increases with a further rise in corporate power due to the influence of corporations on rising consumerist consumption and additional household debt. Thus, with additional rising public debt and government' lack to intervene, inequality only increases.

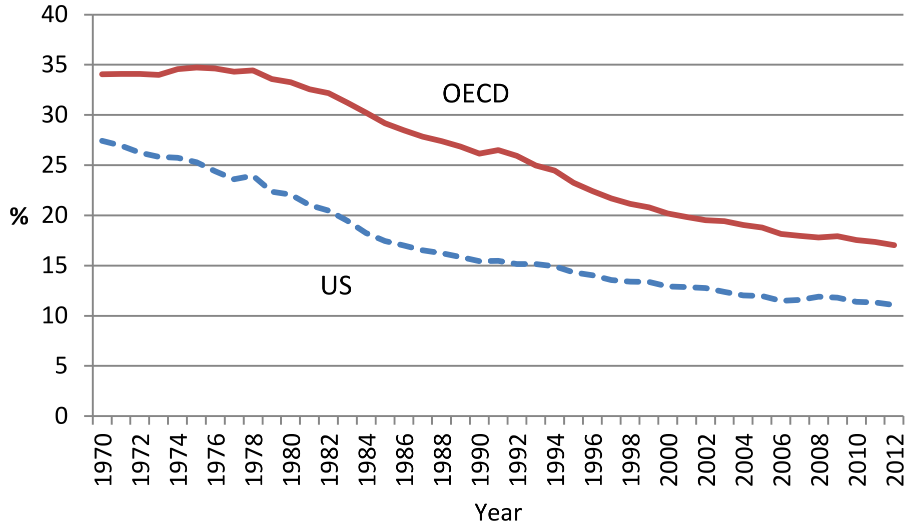
A study, conducted by Azzimonti, de Francesco and Quadrini (2012), shows that rising public debt, financial liberalization and increased income inequality are highly correlated. The index of financial liberalization, constructed by Abiad, Detragiache and Therry (2008), shows that the world's financial markets have become less regulated starting in the early 1980s, which represented the first bigger step for 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.

2.4.5 Transmission mechanisms between inequality and corporate power

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.

As shown in Figure 9, the trade union density decreased in the period from 1970 to 2012, both in the U.S. and the OECD countries. In the U.S., the trade union density level is lower than in the OECD countries, which shows that the trade unions are weaker than the average in the OECD countries. This means that the bargaining power of the union diminishes over time.

Figure 9: Trade Union density in the U. S. and OECD countries



Source: OECD, *OECD.StatsExtracts*, 2014.

A stronger corporate' bargaining position is also shown in income distribution. Since the wages are the biggest cost for corporations, they are very keen to decrease them. As Table 1 shows, for the bottom 90% of income distribution in the U.S., the average income decreased by 8.14 per cent and income share dropped by 16.6 per cent in the period from 1970 to 2012. On the other hand, the average income for the top 5%, top 1% and top 1% sharply increased by 112.84, 200.69 and 452.39 per cent, respectively.

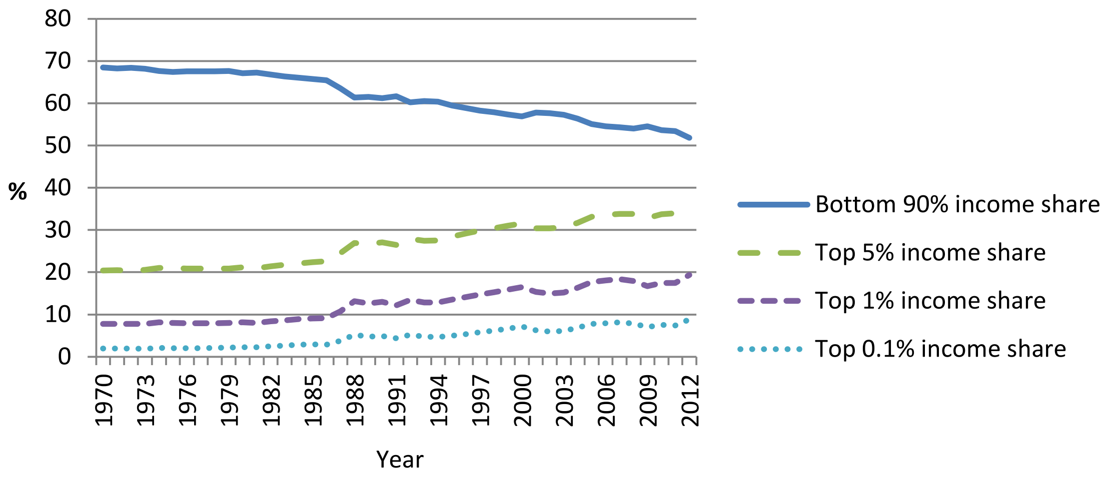
Table 1: The average income and income share in the U. S. (1970–2012)

Year	**Bottom 90% average income in real 2012 US$ (income share)**	**Top 10% average income in real 2012 US$ (income share)**	**Top 5% average income in real 2012 US$ (income share)**	**Top 1% average income in real 2012 US$ (income share)**
1970	33,135.16	177,552.12	339,810.17	843,782.57
	(68.49%)	(31.51%)	(20.39%)	(7.8%)
2012	30,438.59	$377,909.36	1,021,760.82	4,660,987.83
	(51.84%)	(48.16%)	(35.76%)	(19.34%)
Change in income 1970-2012	-8.14%	+112.84%	+200.69%	+452.39%

Source: *The World Top Incomes Database*, 2014.

For the bottom 90% of income distribution in the U.S., income share decreased by 16.6 per cent in the period from 1970 to 2012, whereas for the top 5%, top 1% and top 1%, income share grew by 16.6, 15.4 and 11.54, respectively (Figure 10). Such an average income and income share distribution clearly show that income inequality is increasing.

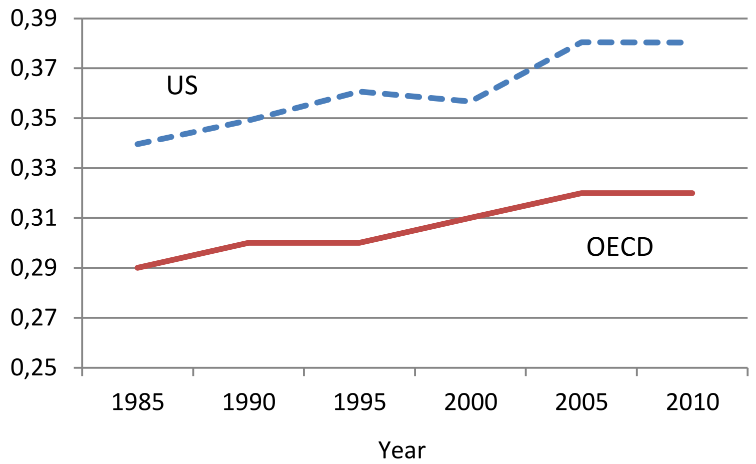
Figure 10: Income share in the U. S. (1970–2012)



Source: *The World Top Incomes Database*, 2014.

Increased income inequality is illustrated in Figure 11. Gini coefficient shows that in the U. S. and OECD countries, income inequality rose in the period from 1985 to 2010.

Figure 11: Gini coefficient in the U. S. and OECD countries



Gini coeff. at disposable income, post taxes and transfers

Source: OECD, *OECD.StatsExtracts*, 2014.

As mentioned above, the people who are impoverished and less equal relative to the production owners and rich capitalist are a weaker part in economic bargaining process. Their collective bargaining power is dismantled, so they enter into a bargaining process towards their employers as individuals with weak unions or even without them. Corporations use such position in order to lower their labour costs or prevent from increasing it. Under these circumstances, income inequality causes that the corporate power only rises.

With a rising corporate power, a new circle of causation begins. Increased corporate power causes an increase in consumption, increased consumption leads to a rise in public and household debt, which leads to further economic inequality. Such circular causation movement is in time cumulative with upward trend in all four variables.

3 IMPLICATIONS OF CUMULATIVE AND CIRCULAR CAUSATION

In this last chapter, I start the analysis in reversed sequence as used in the model above, going clock wise from the end to the starting point. Proceeding in this order, from consequences to causes, one can perhaps come closer to some solutions.

3.1 Social inequality

One of the biggest consequences of the contradictions of capitalism, represented by its non-equilibrium dynamics and the cumulative and circular causation in the economy, in particular, is the inequality. The inequality produced from such state is not only economic inequality, but also **social inequality**. 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, not only people’s life, but the life of all living beings. Natural resources are destroyed and have become even more scarce. Such a path is clearly not sustainable and it does not lead towards prosperity.

Social inequality as a result of economic inequality can have adverse effects on people. It can disrupt 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 that inequality has on societies; eroding trust, increasing anxiety and illness, and encouraged excessive consumption. For each of eleven different health and social problems, including physical health, mental health, drug abuse, education, imprisonment, obesity, social mobility, trust and community life, violence, teenage pregnancies and child well-being, outcomes are significantly worse in more unequal rich countries. Their conclusion is that the societies which do best for their citizens are those with the smallest income inequality, whereas the most unequal societies, like the US, the UK and Portugal, do worst. Thus, the status and income differences have social and health consequences.

3.2 Slower economic growth

Economic inequality can be destructive and can hinder the economic growth. With Berg, Ostry and Zettelmeyer (2008) and Berg and Ostry (2011), income equality can actually increase the duration of countries' economic growth spells much more than free trade, low government corruption, foreign investment, or low foreign debt. They claim that when the growth is looked at over the long period of time, the trade-off between efficiency and equality may not exist. In fact, equality appears to be an important ingredient in promoting and sustaining the growth. Countries with improving equality may also improve efficiency, understood as more sustainable long-run growth. The increase in the US income inequality in the recent decades has been similar to the increase in the 1920s, when, in both cases, there was a boom in the financial sector, with poor people borrowing a lot. This was followed by a huge financial crisis. The recent global economic crisis, with its roots in the US financial markets, may have resulted from an increase in inequality. Beyond the risk that inequality may amplify the potential for financial crisis, it may also bring political instability, which can discourage investments. Such inequality makes it harder for governments to make necessary decisions in the face of shock, such as raising taxes or cutting public spending to avoid a debt crisis. The inequality can also prevent the poor from having access to financial services, which gives them fewer opportunities to invest in education and entrepreneurial activity. Thus, there are some economic and political characteristics that appear to sustain growth, like more equal income distribution, really democratic institutions and openness to trade and foreign direct investment. Nevertheless, over longer horizons, reduced inequality and sustained growth may actually be the two sides of the same coin.

In their recent study, Ostry, Berg and Tsangarides (2014) confirm the views of their previous work that inequality can undermine the progress in health and education, cause investment-reducing political and economic instability, and undercut the social consensus required to adjust in the face of shock, and that it tends to reduce the pace and durability of growth. Next, they notice that equality, which seems to drive higher and more sustainable growth, does not in itself support efforts to redistribute. Inequality may hinder the growth at least in part because it calls forth the efforts to redistribute that undercut growth. In such a situation, even if inequality is bad for growth, taxes and transfers may be precisely the wrong remedy. Their main findings are: **first**, more unequal societies tend to redistribute more. It is thus important to understand the growth-inequality relationship to distinguish between market and net inequality. **Second**, lower net inequality is robustly correlated with faster and more durable growth for a given level of redistribution. They find these results highly supportive of their earlier work. And **third**, redistribution appears generally benign in terms of its impact on growth; only in extreme cases there is some evidence that it may have direct negative effects on growth. Thus, the combined direct and indirect effects of redistribution, including the growth effects of the resulting lower inequality, are on average pro-growth.

3.3 Capitalism divorced from democracy

The next implication of cumulative and circular causation is that democracy does not seem to affect inequality much. This consequence is crucial because it means that ordinary people do not have any real influence on politics, government and real life. There is a ‘standard’ model of democracy that presumes that median voters are employing their voting rights in democratic system to reallocate funds from the wealthier towards themselves. If the difference between the wealthier and the median voter become bigger, the redistribution should be bigger, or more precisely, when the median voter will be poorer, he or she will be keener to reallocate from the wealthier towards herself or himself. In reality, there are insufficient effects of democracy on inequality, and there is even the tendency that inequality increases after the democratization of economy and its structural transformation. The reason why democracy does not really work is that **it is constrained or even captured by powerful elite and its corporate power**. Namely, the democracy does not only work through the distribution of de jure power, which is transparent and very visible in society, but actually depends on the de facto distribution of power. Such de facto distribution of power is not so visible and it uses more subtle leverages and influences in society, like indoctrinating public opinion, capital flights, tax evasions, investments etc. These powerful elites use de facto power when their de jure power is threatened by the democratization or when it stays in their way. They effectively control the political process and prevent the democratic tools of economic policies from changing the distribution of income, the redistribution and social inequality.

These implications of excessive corporate and capitalist elite’ power on democracy can perhaps also explain why the rich succeed to maintain their dominance over the common society. Capital always finds the way to reproduce itself and to maintain its power. As Piketty (2014) has shown, when the rate of return on capital (hereinafter: r) exceeds the rate of growth of output and income ($r > g$), capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based. This fundamental inequality, $r > g$, causes that the risk of divergence in the distribution of wealth is very high, and that inherited wealth grows faster than output and income. People who have inherited wealth thus need to save only a portion of their income from capital to see that capital grows more quickly than the economy as a whole. Under such conditions, it is almost inevitable that inherited wealth will dominate wealth amassed from a lifetime’s labour by a wide margin, and that the concentration of capital will attain extremely high levels, levels that are potentially incompatible with the meritocratic values and principles of social justice, fundamental to modern democratic societies. It is also important to note that the fundamental $r > g$ inequality, the main force of divergence, has nothing to do with any market imperfection, but quite the opposite; the more perfect the capital market is, the more likely r is to be greater than g. There are, nevertheless, the ways how democracy can regain control over capitalism and ensure that the general interest takes precedence over private interests, while preserving economic openness and avoiding protectionist and nationalist reactions.

Piketty does an analysis of empiric data for the period from 1870 to 2010, illustrating the total value of private wealth expressed in years of national income. At the beginning, the total amount of private wealth accounted for approximately six or seven years of national income. It then fell sharply in response to the shocks of the period from 1914 to 1945; the capital/income ratio decreased to only 2 or 3. From 1950 on, there has been a steady rise, slowly returning to five or six years of national income in Britain and France, and with similar upward trend in Germany. This ‘U-shaped curve’ reflects an absolutely crucial transformation and shows that the return of high capital/income ratios over the past few decades can be explained in large part by the return to a regime of relatively slow growth, argues Piketty. In slowly growing economies, past wealth takes on disproportionate importance, because it takes only a small flow of new savings to increase the stock of wealth steadily and substantially.

It can be noticed here that such a sharp fall of private wealth from 1910 to 1950 can be due to vast devastations in wealth because of the two world wars and the Great Depression in between on the one hand, and due to Keynesian economics with large state interventions after the Great Depression and World War II economics on the other hand. In this period, higher taxes were also imposed and more progressive income taxation, which causes more equality in society. The state intervention in economy was stronger and regulators keener to do their work. The period after World War II was also called ‘the glories thirty’, a three decades of high economic growth and small inequality. So the economic growth and the population growth reduce inequality, but even more does higher taxes on higher incomes and wealth. Additionally, the state as a part of economic system, rather than reducing its position to *laissez faire*, it plays an immense role in the social well-being.

Of course, there is no need for the rate of return on capital to exceed the rate of growth of output and income. This is no contradiction of capitalism, but rather a state in society where powerful elites dominate. Society can impose such taxation on wealth and capital gains that the rate of return on capital does not exceed the rate of growth of output and income, but merely equal it. Higher corporate taxes and dividend taxes can also be imposed, as well as more progressive taxation on higher incomes, and higher minimum wages, which can all diminish the returns on capital. As long the rate of return on capital exceeds the rate of growth of output and income, the wealth of the rich will grow faster than the income from the normal work, and the inequality will only be more evident.

3.4 Corporate power as the main leverage of capital

The answer why this is so, lies in the mighty power of capital and the corporate power. Namely, **one of the main tools for obtaining and mostly maintaining their assets and wealth is the corporate power**. Through corporate power, the owners and supermanagers with their technostructure, leverage on all aspects of society that matter for maintaining their status: They try to attain the control over market, public opinion, politicians, government and legislators. They can influence government policies and monetary policies, especially in the US, where the Federal Reserves are, just as the central bank, actually a private bank. Without corporations and corporate power, it would be more difficult for rich individuals to impose their vested interests, but with their corporations and corporate power they have a much stronger position. They can impose their de facto power and curtail de jure distribution of power in society to their advantage. The consequences are that the state is keener to protect private interests than public ones. Income taxes decrease, progressive taxation regresses, and corporate taxes fall. The regulation in the market is weaker and tax evasion increases sharply. This only leads to a greater economic and social inequality.

Thus, the rising corporate power causes the rising inequality. It also causes enormous total debt. As already elaborated in the previous sections, in 18 OECD countries, total debt increased on average from 167 per cent in 1980 to 317 per cent in 2010, as a percentage of GDP. The household private debt increased on average from 39 per cent in 1980 to 94 per cent in 2010, and public debt from 43 per cent in 1980 to 97 per cent in 2010. Such increases are an immense burden for households, especially when vast majority of them are not rich, but rather struggling with stagnant wages and rising costs of living. On the other hand, growing public debt prevents governments from implementing expansionary politics in the name of greater social well-being or from implementing some social correctives in order to help the people that are trapped in vicious circle of poverty and impoverishment. Some market participants, like financial intermediaries, use this situation and gladly lend their money to governments. After causing such high indebtedness and the profit from that, interlinked capital owners profit additionally by lending money and collecting the interest rates.

3.5 Unsustainable consumption and demand

Further implications of cumulative and circular causation are **excessive consumerism** and **excessive consumption.** They both cause overprovided private goods and underprovided public goods, which leads to private affluence and public squalor. Firms also focus more on affluent consumers, so they increase the production of private good and decrease those of public goods and for households with lower income. More supply of private goods produce also a decrease of prices, on the other hand, less supply of public goods, in particular for households with lower income, produce an increase of prices what makes the poor people living only worse. However, people are keen to maintain their social status, so, due to stagnant wages they are prepared to incur further debt.

On the one hand, stagnant wages represent a problem, because the distribution of income is problematic, causing the income inequality in favour of the rich and with almost entire surplus of economic growth and capital gains going to the upper class. On the other hand, there is a question of the standard itself, defined and shaped by the influence of corporations. The corporate power pushes the ideology of consumerism in the front, with a sophisticated influence on public opinion. They shape the environment with the norm 'keep up with the Joneses'. It is the environment formed with the help of corporations and its consumerism ideology that defines the standard. Today, such a consumerist standard prevails and people are 'forced' to follow it not to be perceived as outliers or stigmatized as poor.

Such debt-driven consumption is clearly not sustainable and leads to **unsustainable private demand** and **boom-bust credit cycles**. Because the aggregate demand is mainly driven due to the wrong type of debt-driven consumption, which is not self-liquidating debt, the economy becomes inevitably unsustainable and indebtedness increases. The overconsumption causes a drop in savings, a fall in investments, and consequently, a decrease in government spending, along with an increase in the inequality gap due to tax benefits for the rich. A fall in the aggregate demand causes an increase in borrowing, both the government and household's one, causing a rise in public and household debt. The consequence of rising public debt, which also rises due to socializing private bubble busts and the bailouts of private banks, are less effective countercyclical policies.

The expansionary fiscal policy is limited due to rising public debt. Expansionary monetary policy, with lower interest rate and quantitative easing, on the other hand, increases inequality even more because of lower returns to the savers, while, at the same time, corporations and market investors prof from lower costs of borrowing and higher profits in the stock markets. Such differential effect also works in the case of tight monetary policy with higher interest rate, where the rich benefit again because they can lend their money with higher rates and make profit, and at the same time, protect their real wealth against inflation. Since lower and middle class are mainly borrowers, they are subjected to an additional cost of borrowing due to higher interest rate. Under these circumstances, with strong or extreme countercyclical policies, the strongest part always profits, making thus the inequality in the society only bigger.

The debt-driven consumerist consumption originates in corporate marketing departments and is maintained through corporate power. People's demand for goods and services is not organic; it is not internally created by a consumer. In addition to basic demands, new demands are created by advertisers that benefit from increased consumer spending. Additional to consumer indoctrination, corporations are also very keen to support the consumer debt financing. Such a rise in private production and consumption only pushes out public spending and investment. The solution would be less debt-driven consumption, more savings and consequently, more investments and more government spending.

The equation of aggregate demand reflecting the CCC

$$AD = \uparrow\uparrow C + \downarrow I + \downarrow G + NX \tag{1}$$

can be changed into a more sustainable aggregate demand:

$$AD = \downarrow C + \uparrow I + \uparrow G + NX \tag{2}$$

With different income distribution, more precisely with higher minimum wages, people's wages would not be stagnant. With more disposable income and less consumerist indoctrination, people can consume less and save more. With higher savings, their wealth increases and they can get some additional gain from interest rates, too. Because of higher savings, financial intermediaries can play their role and increase disposable funds for investments. On the other hand, a decreased need for social transfers and a higher and more progressive taxation can enable the government to gain more revenues and increase public spending to provide for greater social well-being, like for the education, human capital and infrastructure. It is the government that has to secure an adequate aggregate demand, not the ordinary people and private consumption.

3.6 Indoctrinated consumer and passive citizen

Another important implication of the CCC is that people are become **indoctrinated** and **passive**. They do not act, nor vote for changes and in their favour. Because of their everyday struggle, ordinary people reduce the uncertainty in their life by embracing the existing institutions, like habits and routines. It is difficult to change habits and routines, belief and reason. Instinct-habit orientated psychology shows that instinct is prior to habit, habit is prior to belief and belief is prior to reason. Reason cannot overturn habit but it must make use of it to form a new habit. The adaptation to a problem situation is the knowledge and it stems from and assists activity.

The key to change is the **knowledge**. People need to understand their instincts and where they come from. The understanding of humans' motivations, their reasoning and actions is therefore crucial. People have to deploy the knowledge through **education** in order to adopt and change habits of thoughts and then their beliefs and institutions. The change from a passive to an active citizen can also be achieved or at least accelerated through new technology. Today's communication over the internet can at least minimize corporate surveillance and control over public media. With the help of new technologies that foster horizontal democracy, people can become more active and put some pressure on their governments and legislators. The capitalism can really work only if people are perceived as really free, if they have the possibility to choose and to participate in democracy.

Being more active, having better education and the understanding of where the instinct-habit psychology comes from, can perhaps help people to overcome the corporate indoctrination, dependence effect and revised sequence. Corporations use these powerful tools in order to control workers, their competitors, market, government, public opinion and consumers. With advertising, marketing, public opinion and opinion makers, they succeed to control consumers and their decision choices. Such revised sequence is attained with another effect, the dependence effect, which roots lie both in conspicuous consumption and handicap principle with its costly signals. **The handicap principle drives the conspicuous consumption, the dependence effect and the corporate power**. The corporations thus exploit one of the most powerful human instincts of the reproduction and display of social status, and cultivate the marketing dominated culture, the consumerism, at its worst.

Consumers are, at the same time, workers with stagnant real wages due to increasing corporate power and increasing economic inequality. People are keen to maintain their social status and, in many cases, not even to improve their social status but merely to maintain the current standard or to hide their poverty or impoverishment. For this and other wants creations from marketing, they are even willing to borrow the money. Such a debt is a **consumptive debt**, mostly unproductive and therefore non self-liquidating. It is not an investment that may bring some future cash flow and liquidates itself with future revenues. Such a debt is taken due to human instincts and exploited by corporate power due to their vested interests.

Nevertheless, humans are still evolving and developing, and as the latest research from the field of evolutionary psychology and behavioural economy suggest, it would be sensible from marketing to replace its paradigm about selling the products for displaying wealth, status and taste with products or services that imply some deeper mental traits, such as kindness, intelligence and creativity. The next logical step in human evolution would be to move from material-seeking status and consumerist consumption towards **deeper mental-seeking state** that can lead to more sustainable and prosperous life.

3.7 Excessive corporate power and countervailing power of the state

From the consumption, I have come to the corporate power as the starting point of the CCC and the cause of many implications. To some extent, the corporate power and the size of corporation are good. There are bigger resources available, which enables better technological solutions and the contribution to a positive development in society. However, as I have already elaborated in previous chapters, the facts clearly show that reality is full of excessive corporate power and too big corporations with a variety of interlinked alliances.

Such an **excessive corporate power** leads only to further centralization and concentration of capital. Transnational corporations increased the values of assets, employment and sales of foreign affiliates between 1990 and 2003 far more than the world' GDP increased. Then, the next indicator of corporate power is the industry concentration ratio, where the results show that industry concentration ratios in the United States for 2002 indicate that 12 out of 18 industries were oligopolistic, with four-firm concentration ratio in the industry above 0.40. That means that 66.6 per cent of industries were oligopolistic, which shows how the market operates in imperfect competition, where the corporate power prevails. Nevertheless, is perhaps the most striking implication of corporate power **the fact how interlinked the TNCs really are**. They are interlinked in such a complex way that it is hard to see the reality.

Further indicator of corporate power is their **influence on political decisions** and direct lobbying, where the statistics show that federal lobbying expenses in 2010 in the US were about $3.55 billion, up 126 per cent since 2000. With about 13,000 registered lobbyists, this means there are more than 24 lobbyists with the expenditures relate to about $6.6 million for every member of the Congress. These figures are most likely underestimated as many lobbying expenses are very hard to track. Then, there is also the latest decision of the US Supreme Court that individuals are free to sponsor politicians, which leads only 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 capital, cannot be truly effective in the sense of common good and social well-being. Such a political system always favours capital. And capital in this sense is represented by corporations and rich individuals who influence and actually control the legislation, politicians and government in accord with their vested interests. Such an interlink between the private and the public sector leads to a **shift from parliamentary democracy towards corporate democracy**.

The above clearly shows that there is a rather strong 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 regulation, increase subsidies and grants from governments, and consequently become too big to fail.

Thus, as claimed by Galbraith (1973), the state has to **counter the corporate power** and rich individuals, because no one else would do that. When the state counters the corporate power, some independent and educated public servants are needed who will not be pressured by corporate interest to make decisions against the public interest. Then voting and democracy also become important, providing an opportunity for middle-income and poor households to put into place the government that would serve the interests of the people rather than the interests of the rich and powerful. When countering the power of large firms, it is better to merely limit their power than to eliminate it. Governments should be keener to impose adequate countervailing power in the private sector, like supporting labour unions and smaller competitive businesses, imposing minimum wage legislation, enabling enough public goods and a proper legislation for cleaner environment. It should seek full employment possibilities and low level of inflation while, at the same time, increasing corporate, wealth and dividends taxes, and setting some more progressive income taxation in order to lower the return on capital and wealth, and decrease the inequality gap.

Fostering the education, which should be available for all, human capital and social mobility can also be seen as a countervailing power towards growing corporate power. Countervailing power is actually a notion of dividing up power in the sense that no one can gain too much power. That means that the state has to act as a part of economy and must restrain the power of big corporations analogous to the mode the judiciary restrain the power of the government. That also means that the **private sector has to be separated from the public sector**. The public sector has to be truly independent. To make another analogy, it has to be separated in the same way as religion is separated from the state in the secular societies. That means stricter legislation and regulators that are independent and work for the greater good and social well-being.

The **countervailing power of the state, active citizen and deeper mental-seeking consumer could decrease the corporate power** and lead to more equality and prosperity in the long term. There is an interlink between private and public sector, regulators who are keener to serve the private than public interests, the sophisticated corporate marketing exploiting consumers instincts and their uncertainty, consumers and workers passivity, and path dependence. Path dependence has a strong influence on evolutionary economics. Past sets the future. For some, this inertia and path dependence are taken as given and thus result in an unnecessary passivity. However, this passivity can be changed to a more productive activity, particularly with education and technological changes.

With technological changes, all the supporting institutions have to change and evolve, too, and provide a proper support. If there is a failure of co-evolution of the institutions with the technological changes and economic growth, then there is an inevitable path to fail as a system. Capitalism with its contradictions causes an immense growth of multinational corporations, their corporate power and influence on politics, governments and society. All this time, capitalist as a wealthy part of society have maintained the income distribution that produce inequality in society. Despite big technological changes, innovations and productivity growth, income and wealth inequality has remained almost the same. Thus, the point is that there was obviously no co-evolution of institutions with technological changes, economic growth and the growth of corporate power. If differently, there would be no economic inequality.

Therefore, a further human development and an **evolution of the institutions** can bring a proper countervailing power of the state and its role in society, a really active citizen, and a deeper mental-seeking consumer, which all can in turn decrease the corporate power, lead to more equality and prosperity, and protect the greater good and social well-being against the vested interests of the capital and the corporations.

CONCLUSION

In the conclusion, I answer to the research questions set in the introduction. **The first question was** whether the growing corporate power and consumption driven by conspicuous consumption and consumerism lead to rising public and household debt, economic inequality and unsustainable growth?

The answer is affirmative. By building an economic model based on qualitative and logical observation, causes and consequences, I have set in the first stage a process of causality. After introducing all variables, I have done the causal analysis of causal effects together with the descriptive analysis. In the next stage, I have explained how the circularity occurs and which variables prevail in the model. In the last stage, I have analysed the causality mechanisms between the main variables, the prevailing and the strongest causal effects, and the consequences of causal effects changes. Finally, I have tested the model by comparing it with empirical data in order to observe the change in the variables in reality. I can conclude that a change of the first variable, the growth of the corporate power, causes an increase in the next variable, the consumption. This causes an increase in household and public debt, which both increase social inequality. Empirical data have confirmed that all variables rise in time.

Using transmission mechanisms of cause and effect, I have shown that, in the first sector, the corporate power influences increased consumption by using combined and complex approaches in order to secure their investment and provide sufficient demand for their products and services. In the second sector, rising consumption influences growing household and public debt with multiple transmission mechanisms that work simultaneously and reinforce each other. In the third sector, growing household and public debt exercise influence on the increased inequality by disabling the government to invest in education, health 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, in the fourth sector, the inequality causes an increase in the corporate power. People who are impoverished and less equal relative to the production owners and rich capitalist are weaker in the bargaining process. They cannot improve their position, so the corporate power only rises.

Corporate power also rises due to other factors. Corporations influence public opinion, private and public media, politics and government in order to lessen the regulations, decrease the taxation and tax evasion, and secure the socialization of the private loss. Supply-side economics turn to be trickle-down economics; however, they do not really trickle to additional investments but rather to tax havens. The income, wealth and corporate taxes decrease, which leads to a further increase in the top incomes and a decrease in incomes at the bottom of the corporate ladder. Hence, the income and wealth inequality increase.

Consequently, with rising corporate power, a new circle of causation begins. Increased corporate power causes an increase in consumption, increased consumption leads to a rise in public and household debt, which leads to a further economic inequality. Circular causation movement is in time cumulative with upward trend in all four variables.

The consumption is a prevailing factor in aggregate demand in all developed countries, on average around 60 per cent of the GDP. Therefore, influencing and controlling the consumption means having an impact on about 60 per cent of the GDP. That can explain why the consequences of this CCC are so immense. Influencing, manipulating and controlling the consumers have bad consequences for the economy and society. Higher debt, vicious circles of poverty and impoverishment, lower social mobility and human capital, slower economic growth, political instability and higher unemployment.

The second research question was whether there should be less consumerist consumption and more savings on the one hand, and more government spending on public goods, in particular on education, human capital and social mobility, on the other side.

The short answer is, yes. With less consumerist consumption, more savings and more government spending, the aggregate demand can be more sustainable. It cannot be up to private consumption to sustain the aggregate demand. In particular, when the real wages for the majority of people stagnate and their debts rise. Therefore, with less consumption, particularly consumerist consumption, people can save more and consequently increasing their savings, accumulation and wealth. The savings can be transformed through financial intermediaries into investments. The government has to increase taxes, particularly for the rich, and thus gain additional budget inflow. Because of lower consumerist consumption, people are not indebted so much anymore, so social transfers for the government decrease. It is up to the state and the government to secure sustainable aggregate demand, and not up to the private consumption and ordinary people.

The third research question was whether the state should interfere into economy and countervail the corporate power. If this is so, when?

Again, the answer is yes. The state must counter the corporate power and rich individuals, because no one else would. In the countering of the power of large firms, it is better to limit the power of large firms than to eliminate it. Governments should impose adequate countervailing power on the private sector of economy by supporting labour unions and smaller businesses, imposing minimum wage legislation, enabling enough public goods and a proper legislation for cleaner environment, seeking for full employment opportunities and low level of inflation. It should also increase corporate wealth and dividends taxes, and set some more progressive income taxation in order to lower the return on capital and wealth, and narrow the inequality gap. Fostering the education for all, human capital and social mobility can also be seen as a countervailing power towards growing corporate power. Countervailing power is actually a notion of dividing up the power in the sense that no one can gain too much power. That means that the state has to act as a part of economy and must restrain the power of large firms. That also means that the private sector has to be separated from the public sector. The public sector has to be truly independent. To make some analogy, it has to be separated in the same way as religion is separated from the state in the secular societies. That means stricter legislation and regulators that are really independent and work for the greater good and social well-being.

Timing is also important. If the state waits too long, corporations can grow to the sizes where there is harder and more painful to act properly. They become too big to fail, meaning they can effectively extort the state to bail them out whenever this is necessary. That is socializing the loss but privatizing the profit. One factor for measuring can be the concentration ration in the industries, with the rule of thumb that when the four-firm concentration ratio in an industry is above 0.40, the industry is considered to be an oligopoly**,** dominated by a small number of powerful interrelated firms. That rule of thumb could be stricter by lowering that ratio and then regulators would have to act, not just observe and be inefficient. They also have to observe and analyse all interlinking, both formal and informal, since corporations are interlinked in such a complex way that it is hard to see the reality. For corporations that are already too big the state has to countervail them and make them smaller and less influential. The corporate power today is clearly an excessive power and corporations and rich individuals (the owners) are too influential. The state can actually interfere into economy and countervail the corporate power at any moment.

The fourth research question was whether the economic inequality should be reduced by distribution and redistribution changes and decreased corporate power.

The economic inequality should be reduced by distribution and redistribution changes and decreased corporate power. By imposing the minimum wage legislation and raising the minimum wages, the corporate profits and capital gains will decrease, whereas the wealth and income inequality will fall. The next tool is the participation in the corporate profit, the so-called ‘economic democracy,’ which has the same positive effect. The next in turn is a bigger progressivity of the income taxation, meaning that higher incomes have higher taxes, which reduces income inequality. Higher corporate taxes can also reduce the corporate power and gain more revenues for public spending. Also, there should be stricter regulations regarding tax avoidance and tax evasion. Thus, a decreased corporate power can provide for lower consumerist consumption with people’ lives less indoctrinated towards material aspirations, lower private household debt, decreased public debt and more public goods, as well as for more social equality and prosperity.

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