

**Corporatocracy:
New Abutment of the Economy and Politics of the
United States of America**

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ABSTRACT

In the age of globalization the real economic and political power is shifting from the governmental institutions to the giant global business entities. This phenomenon is corporatocracy. This study focuses on the investigation of the corporatocracy in the United States of America (US) as a new abutment of the governance of political and economic system of the US that is performed by corporations.

There are two approaches to the phenomenon. According to the first, corporations have positive effect on the economic and political developments in the US. While according to the second one, corporations bring negative consequences for the economy and politics.

This thesis is explaining the existence of corporatocracy in the US and respective growth of inequality in the income distribution of the country. There is a significant correlation between the income inequality and market capitalization of the firms in the US. Thus the research finds that as firms get larger, income distribution worsens in the US. So on one aspect, which is the income distribution, corporatocracy has a negative effect on the US society.

Keywords: Corporatocracy, Economy and Politics of the US, Income Inequality

ÖZ

Küreselleşme nedeniyle, gerçek ekonomik ve politik güc hükümet kurumlarından çok büyük küresel işletmelere kaymaktadır. Bu olaya şirketokrasi denmektedir. Bu çalışma, şirketlerin Amerika Birleşik Devletlerinde uyguladığı politik ve ekonomik sistemin yeni yönetim dayanağı olan şirketokrasiyi incelemeyi amaçlamaktadır.

Olaya iki yaklaşım vardır. Birinci yaklaşıma göre, Amerika'da şirketlerin ekonomik ve politik gelişmelerde olumlu etkisi görülmektedir. İkinci yaklaşımda ise, şirketlerin ekonomi ve politikaya olumsuz etkisi görülmektedir.

Bu çalışma, Amerika'daki şirketokrasinin var olduğunu ve buna bağlı olarak ülkede gelir dağılımı dağılımındaki eşitsizliğin büyüme olduğunu açıklamaktadır. Amerika'daki şirketlerin gelir eşitsizliği ve piyasa değeri arasında belirgin bir bağıntı (korelasyon) olduğu görülmektedir. Bu araştırmada Amerika'daki firmaların büyüdükçe, gelir dağılımının daha kötüye gittiği bulunmuştur. Böylece, şirketokrasinin Amerika Birleşik Devletlerinde gelir dağılımını olumsuz etkilediği ortaya çıkmıştır.

Anahtar Kelimeler: Şirketokrasi, Amerika Birleşik Devletleri Ekonomisi ve Politikası, Gelir Eşitsizliği

To my Parents: Gennadiy & Valentina, my brother Vladislav,
my best friend Ph.S. and all conscious part of humankind.

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PREFACE

This thesis is original, unpublished, independent intellectual product of the author Maryna Statva.

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LIST OF ABBREVIATIONS

The US – The United States of America

GINI – Gini coefficient of income distribution in the US

NF – Number of the US firms

MC – Market capitalization of the listed US corporations

X – Coefficient of NF

Y – Coefficient of MC

LGINI – Natural logarithm of Gini coefficient of income distribution in the US

LNF – Natural logarithm of number of the US firms

LMC – Natural logarithm of market capitalization of the listed US corporations

C – Constant variable

Er – Permissible error

H0 – Hypothesis 0

H1 – Hypothesis 1

CHI-SQ – Chi-square or χ^2 -distribution with k degrees of freedom

WTO – World Trade Organization

IMF – International Monetary Fund

Chapter 1

INTRODUCTION

“The liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than the democratic state itself. That in its essence is fascism: Ownership of government by an individual, by a group or any controlling private power.”
President Franklin D. Roosevelt.

1.1 The Phenomenon of Corporatocracy

In the recent decades globalization is one of the most debated issues in economic and political sciences. There is no single widely accepted argument about the nature of its influence over economies and politics of countries. It's still debatable whether globalization is a negative or a positive phenomenon. The main representatives and players of globalization are multinational corporations. One argument is that they intervene in the all spheres of economic and political life of the countries across the world. It's difficult to underestimate the contribution of multinationals in making the world globalized. Their presence in the daily life of an average human being becomes almost necessity, no matter what part of the Earth this human is in. Majority of the products and services that are consumed today are produced by multinational corporations and have passed a few stages of the production cycle in totally different parts of the world. And the impact of multinational corporations on societies goes far beyond the consumption habits of individuals. Corporations influence the life of the nations much more than it could be seen from the surface.

Since the times of ancient civilizations, the rulers were considered as the only one ultimate institution of power that was in charge of destiny of the whole country in

economic and political aspects. However today there is a noticeable tendency of huge business structures – multinational corporations – to take the gears of the economic and political power in their hands. Though de jure main holders of the power are still considered to be governments, de facto control may belong to the businesses.

The main purpose of this research is to explore the challenge that corporatocracy creates for already established economic and political systems of the countries.

In analyzing corporatocracy, the sample country selected is the most influential and powerful country in the world, the US.

The main question in this research is to see whether corporatocracy is a totally new abutment of the governance of the US where the main real economic and political power is concentrated in the hands of corporations and whether corporatocracy is worsening the income distribution in the US.

In this study, it is analyzed how corporations gained power in the retrospective of the American history, the instruments they employ are examined and the significance of corporate impact on the income distribution in the US is tested.

1.2 Literature Review

“Corporatocracy” is defined as a society or system that is governed or controlled by corporations. [1]

However, at the first time, the term “*Corporatocracy*” was used in a totally different context. It has been cited in print in May 1974 in Dallas Morning News that “Government and its marriage to corporatocracy, have hooked influence universities to turn away from their main business of teaching students and lean more toward producing results for the nation’s defense and business establishments”. [2] Mills (1956) pictured the power elite as wealthy individuals who hold prominent positions in

corporatocracies, and control the process of determining society's economic and political policies. He also described the relationships and class alliances among the US political, military, and economic elites. [3, 4]

Discussion about the corporations influencing the governments appeared in the middle of 20th century. There are two main lines of approaches regarding corporatocracy. The first group of scientists claims that corporations are causing positive changes in the world economy and politics. For example, Bornschier (2004) has constructed an extended Solow-model analyzing the relationship between foreign direct investments undertaken by corporations and economic growth in developing countries and found a positive effect between the two variables. [5]

The other group of scientists reckons that corporations lead to negative consequences in both economic and political contexts. Clarke (1999) claims that corporate business entities have achieved a dominant position in comparison with the governmental institutions. He argues that corporations due to their sizes and extra-large financial resources have confidently surpassed the governments in control over the populations of the countries across the world. Moreover, Clarke states that contemporary system of globalized trade with its international markets has allowed corporations to occupy central historical position of a colonial force that is in charge of the world's fate. The author sees this situation as a negative phenomenon that brings destructive consequences to the nations and peoples of the world in the economic, political and social dimensions. [6]

Bakan, Achbar and Abbott (2003) in the documentary "The Corporation" tell the experiences of seven Chief Executive Officers, three Vice Presidents, two whistleblowers, one broker, and one spy. This documentary investigates the contemporary corporation, considering its status as a legal entity and evaluating its

behavior towards society and the world at large as a psychiatrist might evaluate an ordinary person. As a result, authors of the documentary came up with a conclusion that if corporation was an ordinary person, then it would have such symptoms of psychopathy: callous disregard for the feelings of other people, the incapacity to maintain human relationships, reckless disregard for the safety of others, deceitfulness (continual lying to deceive for profit), the incapacity to experience guilt, and the failure to conform to social norms and respect the law. [7]

Sachs(2011) reckons that the level of the corporate lobbying in the US surpasses the reasonable limits and government ignores such activities, underlying a great bias that exists from the side of the governmental institutions towards corporations. He talks about the current US political agenda being dictated by the interests of corporate entities from the side of four the most powerful economic sectors of the US: defense, financial, medical and energy sectors. In addition, he categorizes the political ideologies of both political parties in the US as right-of-center. [8]

Ahmad and Eijaz (2011) emphasize the government's weaknesses in aspects of sovereignty, independence and geographical borders. [9]

Pollack (2012) raises the issue of "government's improper prioritization of corporate interests over human interests" trying to understand why "systemic distortion of public perception" has its own place in the contemporary realities. Furthermore, Pollack (2012) gathers in her article "analytical and empirical support for the non-personhood of business entities and the mask-quality of their indicia of trade identity" and provides an illustration of "several ways businesses use their masks to manipulate the human public". However, the author emphasizes the fact that "the welfare of large corporations is central to the US national interest". [10]

Perkins(2004) argues that corporatocracy has received its fame as an independent idea. In his book Perkins (2004) claims that he himself actively participated in the procedures of making foreign countries economically and politically dependent to the highly interconnected system of the US corporate entities and political institutions. [11]

1.3 Methodology of the Research

The main question in this study is to see whether corporatocracy is a totally new abutment of the governance of the US where the main real economic and political power is concentrated in the hands of corporations and whether corporatocracy is worsening the income distribution in the US.

Qualitative Research

The phenomenon of corporatocracy, preconditions of its emergence and tools and methodology of its activities will be explained in qualitative research section.

Qualitative research is known for targeting in-depth understanding of studying a phenomenon and the reasons that govern it as a way of examining the hypothesis whether the current economic and political system of the US should be classified as a corporatocracy.

To form the framework of this study two stages are accomplished in Chapter 2.

Stage 1: Focus

At the first stage an in-depth analysis of the factors that have predisposed the current situation of corporatocracy in the US is developed. At this stage while observing historical retrospective of the development of the power of corporations, the preconditions and dynamics that allowed corporatocracy to appear as economic and political phenomenon are analyzed.

The Stage 2: Data Collection & Analysis

The sources of this research will be official reports, statistical tables, interviews with actual members of the corporatocracy and papers of scholars. For understanding the way corporations act nowadays it is needed to discover what the mechanisms help the corporations to affect the key decisions of internal and external policy of the country.

Quantitative Research

Quantitative research is known as systematic empirical investigation of studying a subject via statistical techniques and targets to develop and employ a mathematical model pertaining to a phenomenon. [12] Framework of Chapter 3 will compose the mathematical model testing the hypothesis of the research with the help of real statistical data. The hypothesis claims that corporations have an impact on the income distribution in the US. The dependent variable is the Gini coefficient of income distribution in the US that measures the inequality among the income groups. A Gini coefficient of 0 demonstrates perfect equality of everyone having exactly equal income. And Gini coefficient of 1 expresses maximum inequality in the case when only one person has all income. [13]

The independent variables of regression analysis are: number of the US firms and market capitalization of all listed corporations in the US. In the mathematical model number of firms will be measured by employment size of the enterprises. The term “firm” defines a business entity that consists of one or more domestic establishments in the same state and industry that were specified under common ownership or control. Nonemployers are not included in the statistics of the number of firms. The term “nonemployers” defines business entities that have no paid employees

and are subjects to federal income tax. In the majority of cases such businesses are incorporated (sole proprietorships). [14, 15]

Market capitalization of the listed US corporations will provide us information about how profit motivation of corporate management and consequent representation of the public value of corporations at the financial markets affects the distribution of the income among the population of the US. In the mathematical model of this research market capitalization is defined as the total value of the issued shares of a publicly traded company and is equal to the share price multiplied by the number of shares outstanding. Outstanding stock could be bought and sold in the public markets. Market capitalization is often used as a measure of the public opinion of concerning the total net worth of the company. [16]

The data that were used in this study is time series data, covering the information about NF, MC and GINI (Number of the US firms, Market capitalization of the listed US corporations, and Gini coefficient of income distribution in the US) within the period of 1988-2011. This data is extracted from the World Bank Database and The US Census Bureau. The tables of the data could be found in the Appendix A.

Considering the type of mathematical models computed and annual type of the statistical data Ordinary Least Squares statistical technique will be applied. For implying this technique Microfit for Windows 5.0 Software is used. A multivariate analysis involves analyzing the effect of a number of explanatory variables on a single dependent variable.

In the conclusion the qualitative and quantitative observations will be presented.

Conclusions of the Research

In Chapter 4 there will be conclusions of the findings of the research from both qualitative and quantitative analysis.

Chapter 2

QUALITATIVE RESEARCH: THE ROLE OF CORPORATOCRACY IN THE ECONOMY AND POLITICS OF THE US

2.1 Preconditions and Factors Affecting the Development of the Corporate Dominance in the US

2.1.1 The Impact of the American Civil War on the US Tolerance of Corporations

Makwana (2006) argues that American Civil War gave the birth to the foundations of the corporatocracy. Before the war, American society had an adverse attitude towards corporations since those times the US have experienced the negative influence of British corporations. For instance, in 1638 with the goal to colonize the New World, King Charles I chartered the Massachusetts Bay Company to settle in North America. Such companies as Dutch East India Company and the British East India Company also served the mercantile economic policies of British Empire and in a very efficient manner ruined national businesses in British colonies of the New World. [17]

Newly founded country of the US, observing such activities from the side of British corporations, tried to escape the colonial tradition of the United Kingdom and prevent emergence of corporate power inside the US. The society of the US was threatened by the corporate power with its potential capacity to get unlimited access to the state resources, then to accumulate vast amount of them and then with the help of

this to affect the production processes, media tools and electoral mechanisms of the country.

However, the situation has changed dramatically during the American Civil War, when the excessive spending of the US Government was abused by corporations. Makwana (2006) describes the Civil War as increasing the wealth and power of corporations. During the Civil War government spending was enormous and corporations benefited from the situation. With the help of corporate wealth they have bribed officials, influenced courts and have received various public resources: land, water, timber, minerals for themselves. They also received massive financial subsidies. Corporations received also constitutional rights that initially were meant to protect people and their civil liberties, but apparently, since those times started to serve also for corporate needs. [17]

The President of the US Abraham Lincoln in the middle of the Civil War, in 1864, was writing to Colonel William F. Elkins:

“I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. ... Corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed.” [18]

As stated by Lincoln financial dominance of corporations over the government institutions has allowed business giants to turn legislation of the US on their side.

2.1.2 The Birth of Corporate Personhood

Huge financial dependency of the US Government on corporations was resulting in the bending the US legislation system towards the interests of corporations. After the Civil War “green light” was given to corporations by the government in order to secure their legal rights. One of the most decisive precedents for the future corporatocracy development was the precedent of corporate personhood in the US

legislation. It was accepted by the Supreme Court of the US in 1886 and the main point was providing corporations constitutional rights of ordinary people as a legal identity. [17] For instance, people's privacy was protected from unreasonable searches. This law was abused by corporations as a right of keeping corporate documents private. This has allowed corporations to become impenetrable and protect themselves against investigations concerning issues of health, safety and environment.

The next right of the corporate personhood that gave corporations a huge advantage was freedom of speech right. And as Makwana (2006) claims it was “infringement upon the very heart of democracy”. In the mid 1970’s as an extension to freedom of speech right the US Supreme Court has allowed corporations to finance political elections and to affect the processes of the US law that were somehow related to the corporate activities. They gave way to political advertising campaigns being sponsored by corporations. [17] Robbins (1999) is sharing the same point of view, claiming that under the guise of freedom of speech right, corporations as “persons” started freely to lobby legislatures, use the mass media, establish business schools and found charitable organizations. [19] Clearly, corporate personhood has opened corporations a variety of opportunities.

2.1.3 Limited Liability Concept as a Key Basis for the Development of Corporations

Limited liability is a concept of financial liability that is limited to a fixed sum, a person's investment in a company. A shareholder of such company is not personally responsible for any of the debts of the company, other than for the value of his/her own investment in that company. [20] This concept allows gathering enormous financial resources for the interests of competing business structures. But they also can escape from the financial responsibilities.

Chief Executive Officer and the rest of the managers of any corporation do report to shareholders the detailed information about all activities of the company. Moreover, some of the most decisive aspects of the business performance of the corporation could be implemented only with the agreement of the owners. However, at the same time any financial responsibility or responsibility in front of the legislation system of the US for the actions of corporation is not under the competence of shareholders. The concept of limited liability has helped to corporations to eliminate main risks of the corporate business and has become a basic stone in the foundation of corporatocracy.

2.2 Mechanisms of Influence of Corporations on the Economy and Politics of the US

2.2.1 Lobbying at the National Levels of the US

It's argued that the main and the most powerful method of affecting decision making processes at the legislation level in the US is lobbying. Lobbying is defined as an attempt to make an influence over the decision-making process at the legislation level through the governmental representatives, legislators or members of regulatory agencies. [21] Corporations always were the key players of lobbying activities. The history of corporate lobbying has started exactly since those days when corporations have received their right of free speech and consequent right of introducing and protecting corporate interests.

Corporations become one of the biggest overall spenders operating in the sector of lobbying in Washington. In the 15-years period (from 1998 to 2012) the variety of the US companies has spent millions of dollars on lobbying their business interests. (Table 1)

Table 1. Top Entities Spenders on Lobbying (1998-2012) [22]

Lobbying Client	Total (\$)
US Chamber of Commerce	966,955,680
General Electric	284,040,000
American Medical Association	281,282,500
American Hospital Association	235,219,136
Pharmaceutical Research & Manufactures of America	232,583,920
American Association of Retired Persons	222,822,064
National Association of Realtors	219,817,423
Blue Cross/Blue Shield	202,740,052
Northrop Grumman	189,485,253
Exxon Mobil	182,392,742
Edison Electric Institute	172,936,789
Verizon Communications	172,427,933
Boeing Co	171,972,310
Business Roundtable	171,400,000
Lockheed Martin	166,366,488
AT&T Inc.	152,419,336
Southern Co	146,280,694
Altria Group	144,338,200
National Cable & Telecommunications Association	142,380,000
General Motors	134,534,170

Table 1 shows that some firms spent enormous sums for lobbying: General Electric (\$ 284 mln), Exxon Mobil (\$ 182 mln), Verizon Communications (\$ 172 mln), Boeing Co (\$ 172 mln), General Motors (\$ 134 mln) etc.

In Table 1 there is intensive presence of medical organizations such as American Medical Association, American Hospital Association, Pharmaceutical Research & Manufactures of America and Blue Cross/Blue Shield. The medical sector of the US is highly involved in lobbying. It seems that medical services in the US are positioned more like business activities rather than like public services. And this might become a potential hazard for the public health of the citizens of the US.

Communication entities also appear in the list of the biggest spenders, particularly, Verizon Communications, AT&T Inc. and National Cable & Telecommunications Association. Assumably, they can distort valuable information for the whole society and lead to the prejudiced social consciousness on the variety of important issues. Especially taking into the account that in the current technological age the main weapon is information. (Table 2)

Table 2. Top Sectors Spenders on Lobbying (1998-2012) [23]

Sector	Total (\$)
Miscellaneous Business	5,427,464,911
Health	5,361,291,052
Finance / Insurance / Real Estate	5,361,205,408
Communication / Electronics	4,429,325,735
Energy / Natural Resources	3,988,390,873
Other	2,893,718,743
Transportation	2,778,175,457
Ideology / Single-Issue	1,787,473,562
Agribusiness	1,624,121,348
Defense	1,535,483,075
Construction	588,490,823
Labor	537,827,949
Lawyers & Lobbyists	389,454,657

Miscellaneous Business

The first place (\$ 5.4 billion) is taken by miscellaneous business that represents the whole diversity of industries, from the manufacturing, textiles, steel and chemical industries to consumer retail goods, restaurants, gambling, tourism, food and beverages.

Financial Sector

The third place in the list goes for the financial sector in Table 2 that has spent vast of money (\$ 5.3 billion) on lobbying interests of finance, insurance and real estate corporations. Furthermore, this sector deserves attention as any other, since the recent

financial crisis started from this sector. And lobbying played an important role in the financial disaster caused by financial institutions.

The main tools of the financial institutions are derivatives – financial instruments, devised by traders to protect investments by hedging their bets. Thus, in 2008 the US banks sold 40 % of their toxic mortgage debts to banks in Europe. [24] Hence such usage of derivatives causes the bubble economy and its collapse brought the whole world to global financial crisis in 2007-2008. When international trading of derivatives came under scrutiny, the whole Wall Street with its lobbying group the International Swaps and Derivatives Association activated all the lobbying gears (strengthened by the \$ 930 million spent on lobbying in 2008-2009) for bringing one clear message for governmental regulators: tighter rules are not needed – let the market regulate. [24] As a result, measures to prevent banks taking high risks with ordinary people's money were neglected and propositions concerning the regulation of the prospering trade in derivatives were effectively blocked. Thus, despite scientists' recommendations (for instance, the Nobel Prize-winning economist Joseph Stiglitz calling for a ban on derivatives trading), Government of the US has allowed the international trade in derivatives to continue being virtually unregulated. [24]

Sector of Energy and Natural Resources

The sector of energy and natural resources has spent on lobbying about \$ 4 billion as seen in Table 2. For example, the Tea Party Movement is an American political campaign, on a scale not seen before, advocates strict adherence to the Constitution of the US, reducing the US Government spending and taxes, the US national debt and federal budget deficit. [25] Tea Party Movement was spread through America ahead of grassroots uprising. However later, it was revealed that Tea Party Movement was heavily funded by the oil wealth of Koch Industries. Thus, all the

actions of the Tea Party Movement were parallel through the conservative political advocacy group, Americans for Prosperity, that in its own turn has used the Tea Party Movement to pin in the public concern over the state of the economy and direct it towards an anti-government, anti-regulation, anti-intervention agenda. Undoubtedly, it suits oil interests of Koch very well. [24]

Defense Sector

The defense sector has contributed \$ 1.5 billion in lobbying. From the Table 1 it could be seen that in the US the biggest spender companies of the defense sector are Northrop Grumman (\$ 189 million), Boeing Co (\$ 172 million), Lockheed Martin (\$ 166 million). In 2012, some 935 lobbyists were registered as working for the defense industry in the US. Furthermore, 579 of them work in the Department of Defense and 340 in the Department of Army. [26, 27] This phenomenon is called in politics as “revolving door”. Revolving door is the movement of high-level employees from public sector jobs to private sector jobs and vice versa. [28]

Statistically speaking, in 2012 about 22.8 thousands lobbyists were operating in the Government of the US, representing different sectors of the economy in the country. (Table 3)

Table 3. Number and Percentage of Revolving Door People Profiled, by Economic Sector (2012) [26]

Sector	Number of Revolving Door People Profiled	% of Revolving Door People Profiled
Miscellaneous Business	3,585	15.7
Health	2,725	12.0
Finance / Insurance /Real Estate	2,632	11.5
Other	2,422	10.6
Communication / Electronics	2,336	10.2
Energy / Natural Resource	2,077	9.1
Transportation	1,685	7.4
Unknown	1,202	5.3

Ideology / Single-Issue	1,134	5.0
Defense	935	4.1
Agribusiness	887	3.9
Construction	613	2.7
Lawyers & Lobbyists	432	1.9
Labor	131	0.6

Health, finance, communication, energy and defense industries gain billions of the dollars with the help of the whole army of lobbyists. And the Table 4 demonstrates where exactly the army of lobbyists is settled in the governmental institutions.

Table 4. Revolving Door: Top Agencies (2012) [27]

Agency	Number of Revolving Door People Profiled
White House	1106
Department of Defense	579
Department of Commerce	462
US House of Representatives	395
Department of Army	340
Department of Health & Human Services	332
Department of Agriculture	260
Department of Justice	234
Executive Office of the President	220
Department of State	218
Department of Treasury	212
Vice President's Office	182
Department of Energy	164
Federal Communications Commission	158
Environmental Protection Agency	149
Department of Transportation	144
Office of US Trade Representative	137
Office of Management & Budget	134
Obama-Biden Transition Project	122
Securities & Exchange Commission	117

The lobbyists take positions in the White House, US House of Representatives, Executive Office of the President, Vice President's Office, Department of Defense,

Department of Commerce, Department of Army, Department of Health & Human Services, Federal Communications Commission and Securities & Exchange Commission. The total amount of lobbyists in the mentioned above agencies is approximately 5.7 thousands and is only a quarter from those 22.8 thousands that were sent from the whole economy of the US to take part in the political life of the country.

Makwana (2006) gives the example from the times of G.W. Bush who was heavily sponsored by Enron Corporation. The Ex-Vice President, Dick Cheney, earned about \$ 50-\$ 60 million at the Chief Executive Officer position of Halliburton Oil Company. The Ex-National Security Advisor, Condoleezza Rice, was a director in Chevron and The Ex-Secretary of Commerce Donald Evans hold stocks valued between \$5 million and \$ 25 million in Tom Brown Inc. of which he was the Chief Executive Officer. [17]

Goldman Sachs, one of the biggest investment banks that trades in everything that relates to the derivatives trade: from the price of food to sub-prime loans is one of the leaders in the revolving door. In 2008 Goldman Sachs was heavily criticized for an apparent revolving door relationship, in which its employees and consultants have moved in and out of the high level of the US Government positions, creating the great potential for conflict of interest. Former Treasury Secretary Henry Paulson was a former Chief Executive Officer of Goldman Sachs. Additional controversy was added by the selection of former Goldman Sachs lobbyist Mark Patterson at the position of Chief of Staff of the Treasury Secretary Timothy Geithner. [24]

Robert Edward Rubin from Goldman Sachs was taking the position of the US Secretary of the Treasury during both the first and second Clinton administrations. Before his government service, he spent 26 years at Goldman Sachs, eventually serving as a member of the board, and Co-Chairman from 1990 to 1992. [29] The list of people

taking governmental positions and at the same time serving Goldman Sachs is going far beyond.

The US Elections

There are two major political parties in the US: Democratic (socially liberal and progressive platform) and Republican (American conservatism) Parties. In the historical context, ideologically Democratic Party always opposed lack of governmental regulations towards business and finance activities of the country. But recently Democratic Party made a significant shift towards the center and started talking more about mixed economy of the US as the most optimal policy for the current stage of the country's evolution. [30] Republican Party steadily and heavily supports the ideas of free market that does not support strict interventions from the side of the government. [31] In the Presidential race 2012, the candidate from Democrats was Barack Obama and from Republicans was Mitt Romney. Needless to say, that elections in the US require rising of enormous funding. Barack Obama (winner of the Presidential race) spent \$ 1.1 billion on the electoral campaign. And Mitt Romney just slightly surpassed his competitor and has spent \$ 1.2 billion. There are interest groups for each candidate.

In the Table 5 it could be seen which entities were interested in the victory of each candidate and why they financed these candidates.

Table 5. Top Contributors to the Presidential Race (2012) [32]

Barack Obama			Mitt Romney		
	Entity	Total (\$)		Entity	Total (\$)
1	University of California	1,212,245	1	Goldman Sachs	1,033,204
2	Microsoft Corp	814,645	2	Bank of America	1,013,402
3	Google Inc.	801,770	3	Morgan Stanley	911,305
4	US Government	728,647	4	JPMorgan Chase & Co	834,096
5	Harvard University	668,368	5	Wells Fargo	677,076

In Table 5, it could be noticed that candidate from Democrats was supported by the top US Universities, US Government and leading software companies. The candidate from Republicans was sponsored by financial giants who are interested in an unregulated market that can create the highest profits for them. Moreover, President Obama made his career successful not without participation of Goldman Sachs that apart from contribution of \$ 1 million when he ran for presidency in 2008, was also actively supporting Obama during his elections to the Senate. That's how in one way or other, a company that is ready to pay will find its way of standing up for its business interests after the elections.

2.2.2 Lobbying of International Organizations

Corporations also try to strengthen their influence abroad in the new markets. And they do it mostly with the help of international organizations. Needs of the US corporations are perfectly served and secured through the agreements such as The North American Free Trade Agreement, The Agreement on Trade Related Aspects of Intellectual Property Rights and negotiations within international organizations such as World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank. [17]

Makwana (2006) claims that the US “secured the ultimate competitive advantage by dominating the World Trade Organization”. Theoretically, 157 countries are members of WTO whose goal is promoting free trade and standardizing trade rules between nations on the base of equality. However, practically situation differs dramatically and WTO is biased towards the interests of stronger players of the world economy and politics, such as the US, at the cost of weaker ones. [17]

2.2.3 Tax Avoidance

The next popular technique for strengthening corporations' economic and political power is tax avoidance. Shan (2013) talks about the mechanisms of corporations avoiding taxes and claims that corporations due to hiring ingenious lawyers and accountants invent different methods of tax avoidance. [33]

The Public Campaign (2011) has discovered in its report that with the help of tax-dodging techniques, 30 of the biggest US corporations successfully spent more money on lobbying Congress than they paid in federal income taxes between years 2008 and 2010. [34] (Appendix B) As seen in Appendix B, money that corporations normally pay to the government and potentially would benefit the entire population of the US is spent for lobbying corporate interests that rarely match with social needs. Among 30 examined companies only FedEx has paid \$ 37 million of taxes, while the rest 29 corporations not only didn't pay a single dollar of taxes, but even received tax refunds from the government. [34] (Appendix B)

Total profits of the 30 examined companies are \$ 163.79 billion, tax refunds from the governments became \$ 10.6 billion and expenditures on the lobbying \$ 475.67 million.

2.2.4 Blackmailing of Foreign Countries

Anup Shah (2013) claims that corporate entities in negotiations do perform the pressure on the foreign governments of the different countries in the order to receive more favorable economic and political conditions for their business activities. Corporations use threats like relocating the corporate assets at the territory of other countries in order to reach favorable agreements for them. [33]

In one of his interviews, John Perkins (2004) has formulated the concept of corporatocracy abroad. He talks about three main steps of affecting foreign governments by corporations:

1) *Financial dependence*: Convincing foreign governments to invest their dollars back in the US;

2) *Central Intelligence Agency interventions*: Attempts by Central Intelligence Agency to strengthen political opposition, perform assassinations, provoke revolutions;

3) *Military interventions*: Invasion of the US army at the territory of foreign country with the attempt of conquest. [11]

As Perkins says all these actions only seem to be performed by political motivations but the true incentives are purely financial and business ones.

And here there are particular illustrations of the activities of the US corporations:

1. *Chevron*, an American multinational energy corporation, is responsible for the death of several Nigerian protestors who were against the company's exploiting and polluting the Nigerian Delta. Chevron financed the local militias, who have a long reputation of human rights abuses, to suppress the protests, and also supplied them with helicopters and boats. Protesters were fired upon and had their villages burnt to ground. Those activists were protesting against constant spilt of oil that has contaminated swamps, rivers, forests and farmlands in the region. As John Vidal (2010) states annually more oil contaminates the Niger Delta than was spilled in the case of Gulf of Mexico. As a consequence of such actions, life expectancy in the rural in the communities of that area has fallen to a little above 40 years. NnimoBassey claims that in the case of the US enormous efforts were spent on stopping one-time spill, but in

Nigeria, nobody gives attention on constant spills that destroy the habitant environment of the people. [35, 36]

2. *Pfizer*, the largest pharmaceutical corporation in the US, is infamous for massive use of animal experimentation and for the usage of the Nigerian children as guinea pigs. In Kano, Nigeria, Pfizer tested an antibiotic on a few diseases that are spread in the countries of the Third World, such cholera, measles, and bacterial meningitis using Nigerian children. For this experimentation the representatives of the company gave trovafloxacin to 200 children and it led to the great amount of physical and mental deformities among them and even deaths. [35]

3. *Exxon Mobil*, an American multinational oil and gas corporation, is ranked 1st among all world corporations by the level of the revenue it has received in 2011 which was more than \$ 486 billion. Exxon Mobil is responsible for many social and environmental crimes, including numerous cases of oil spills. Exxon Mobil has caused the population of critically endangered Russia's grey whale to decline because of drilling activities in the habitat of these animals. Secondly, as reported by The Political Economy Research Institute (2012), Exxon Mobil is ranked among the top six corporations emitting airborne pollutants in the US. Thirdly, Exxon Mobil has been funding scientific studies that refute global warming. And finally, in 2001 Exxon Mobil faced a lawsuit which stated that the corporation allegedly hired the Indonesian military men that tortured, raped, and murdered human rights activists while serving as plant security at Exxon Mobil in Aceh. [35]

4. *Monsanto*, American multinational agricultural biotechnology corporation, is responsible for selling genetically modified crops, bovine growth hormones and poisons, particularly dangerous "Agent Orange". The next Monsanto's invention is the so-called "terminator seed" which creates plants that never fruit or flower so that

farmers must purchase them every new year. Plus, Monsanto is infamous for sticking, suing and jailing farmers (that it claims to be helping to) for saving seeds from one season's crop for planting them in the next years. [35]

5. *Coca-Cola*, an American multinational beverage corporation, is indirectly involved in the violent killings of workers and union officials in developing countries in attempts to suppress workers' rights. In addition to that, there has been several cases of kidnapping, torture, health violations, discrimination, fuelling conflicts, privatizing and contaminating local water sources, using child labor and sex trafficking that have all been documented and reported as occurring under the indirect, but still responsibility of this corporation. [35]

Executive director of the South Centre, a research center of 51 developing countries, Martin Khor, has underlined the double standards from the side of corporations towards the host countries. [36] Unfortunately, few governments have the courage to fight with corporatocracy for the rights of their citizens.

Even if the US Government to a certain extent is still able to control side effects of the corporations' business activities, it doesn't happen in the foreign countries. For instance, in 2010 British Petroleum that had created a great environmental disaster in the US by spilling tons of oil in Gulf of Mexico for three months. The source of the disaster was a sea-floor oil gusher caused from the explosion on 20th of April 2010 by Deepwater Horizon which caused 11 deaths. The gushing wellhead was capped after 87 days, on 15 July 2010. It has been estimated that approximately 53,000 barrels of crude oil spilled in the Gulf per day (8,400 m³/d), resulting a total discharge of 4.9 million barrels (780,000 m³) for 3 months. [37] Barack Obama effectively dealt with this case and has obliged British Petroleum to pay \$ 20 billion to the US for covering economic losses and environmental costs. [36] This case was settled by the US against a foreign

company from the United Kingdom. However, the situation is different for the US corporations. Even when much worse social and environmental disasters have been caused by the US corporations in the developing countries, similar to the situation with British Petroleum, little, if any, compensation has been paid to the foreign governments by the US corporations. For example, in the early 1990s Amazon region of Ecuador has been contaminated by the toxic waste and oil produced by the oil business giant Texaco (later acquired by Chevron in 2001) in much bigger scales than it happened in the case of the oil spill in the Gulf. As New York Times reported, the toxic chemicals more than 18.5 billion gallons (68 billion liters) had leaked into the soils, groundwater and streams, and indigenous people in the area reported that 1400 children died from the resulting poisoning. Experts have continuously claimed that the disaster has devastated people's lands, health and income. The indigenous groups demanded for \$ 27 billion in damages. The company paid Ecuador Government only \$ 40 million as clean-up costs, which is far too little given the scale of the damage.[36]

If it seems that things couldn't be worse, the eco-disaster in Bhopal will prove otherwise. What has happened Bhopal, India is that poisonous gas spread from the company of the US Union Carbide Corporation (since 2001 is a wholly owned subsidiary of Dow Chemical Company), a chemical manufacturing company. In 1984 it affected 500,000 people. 2,300 persons were killed immediately, 30,000 died later and thousands were seriously injured. What is more astonishing is that Union Carbide did not accept any responsibility for the disaster. In 1989 through a set of negotiations with Indian Government Union Carbide paid \$ 470 million but this is not an adequate amount, taken into the consideration the scale of the disaster. [36]

It should be said that the important matter here is not the financial compensations that were not paid in the proper scales by the US corporations. The

important point is that societies and environments of foreign countries were unrecoverably damaged and people lost their lives. The value of the human lives and damaged nature are not restorable by money. Inappropriate corporate activities have hurt the whole world in social and environmental aspects and have made it poorer for the lives and resources that were unique in these places.

Chapter 3

QUANTITATIVE RESEARCH: TESTING AND ANALYSIS OF THE MODEL OF CORPORATOCARCY

In the qualitative research, the main hypothesis of this study claims that corporatocracy is a totally new abutment of the governance of the US where the main real economic and political power is concentrated in the hands of corporations and corporatocracy is worsening the income distribution in the US.

Testing the hypothesis quantitatively Gini coefficient was taken as the dependent variable. Gini demonstrates perfect equality of everyone having exactly equal income, if it is zero, and Gini coefficient of 1 expresses maximum inequality in the case when only one person has all income. [13]

The independent variables in the mathematical model are the business activities and economic performance of corporations: number of the US firms and market capitalization of all listed corporations in the US.

Number of the US firms and its dynamics will allow us to see how growth of corporations' development affects the income inequality among American citizens. Market capitalization of the listed US corporations will provide us information about how the public value of corporations at the financial markets affects the distribution of the income among the population of the US.

The assumption is that as number of the US firms decrease (monopolization), the income distribution should get worse. And as market capitalization of the listed US corporations increases (corporatization), the income inequality should get higher.

The model analyzes the correlation between the number of the US firms & market capitalization of the listed US corporations and Gini coefficient of income distribution in the US. Respectively, test of these relationships between variables is delivered via the next model:

$$\text{GINI} = f(\text{NF}, \text{MC}); \quad (1)$$

Where Gini is the function of NF and MC.

$$\text{GINI} = C + X \text{NF} + Y \text{MC} + \text{Er} \quad (2)$$

Where:

GINI – Gini coefficient of income distribution in the US;

NF – Number of the US firms;

X – Coefficient of NF;

MC – Market capitalization of the listed US corporations;

Y – Coefficient of MC;

C – Constant variable;

Er – Standard error.

The two hypothesis of the mathematical model are:

H0: NF and MC are not correlating with GINI coefficient significantly and consequently there is no correlation between Gini coefficient of income distribution in the US and Number of the US firms and Market capitalization of the listed US corporation.

H1: NF & MC are correlating with GINI coefficient significantly and consequently there is correlation between Gini coefficient of income distribution in the

US and Number of the US firms and Market capitalization of the listed US corporations.

The sample period that studied is the interval from 1988 till 2011. The variables are analyzed through the natural logarithms. Such mathematical transfers are necessary because model is constructed in a linear form and its analysis is made in the dynamics of the long-run perspective: LGINI, LNF, LMC (Appendix A). The statistical parameters were represented by the internet encyclopedia: Investopedia.

Table 6 shows the results of the regression analysis.

Table 6. Parameters of Correlation

Sample period	24 observations from 1988 to2011		
Variables	LGINI	LNF	LMC
Maximum	3.8649	15.6491	9.9008
Minimum	3.7519	15.4158	7.9338
Mean	3.8187	15.5364	9.1673
Standard Deviation	0.033832	0.072720	0.64259
Skewness	-0.93914	-0.16075	-0.67596
Coefficient of Variation	0.0088595	0.0046806	0.070096

Maximum and *Minimum*. Max: LGINI = 3.8649, LNF = 15.6491, LMC = 9.9008; and respectively Min: LGINI = 3.7519, LNF = 15.4158, LMC = 7.9338.

Mean for LGINI is 3.8187, for LNF = 15.5364, for LMC = 9.1673.

Standard Deviation is a measure of diversity that illustrates what amount of variation does exist from the mean. Here there is very low standard deviation: LGINI = 0.033832, LNF = 0.072720, LMC = 0.64259. It indicates that the data are very close to the average meaning.

Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable. Negative skew defines that the tail on the left side of the probability density function is longer than the right side and the bulk of the values (including the median) lie to the right of the mean. A positive skew is vice versa. Since

all the values are negative, accordingly it demonstrates that all of them are right-skewed: $LGINI = -0.93914$, $LNF = -0.16075$, $LMC = -0.67596$. In such way the bulk of the values with the median inclusively is to the right of the mean.

The Coefficient of Variation is a normalized measure of dispersion of a probability distribution; unitized risk or the variation coefficient has the next meanings for $LGINI = 0.0088595$, $LNF = 0.0046806$, $LMC = 0.070096$ respectively. Since our results are lower than 1, it means that distribution in our equation is considered as low-variance one and data points are very close to the mean.

Correlation refers to any statistical relationship involving dependence between two random variables. *Estimated Correlation Matrix of Variables* is represented in the Table 7 and demonstrates the correlations between variables of the research.

Table 7. Estimated Correlation Matrix of Variables

	LGINI	LNF	LMC
LGINI	1.00000	0.91943	0.91066
LNF	0.91943	1.00000	0.92456
LMC	0.91066	0.92456	1.00000

It could be seen that there is high level of the dependence between $LGINI$ & $LNF = 0.91943$, $LGINI$ & $LMC = 0.91066$, and LNF & $LMC = 0.92456$. It means that all these combinations are relatively highly connecting with each other. It should be noticed that high coefficients of correlation between $LGINI$ & LNF and $LGINI$ & LMC were expected. Every 1% change in the Gini coefficient of income distribution in the US could be affected by approximately 0.92 % change in the number of the US firms and about 0.91% change in the market capitalization of the listed US corporations.

At the same time the fact of LNF & LMC being highly correlating between each other has appeared to be totally surprising. Number of the US firms and market capitalization of the listed US corporations are interdependent with each other. The

change of 1% in the number of the US firms might be potentially brought by 0.925% change in the market capitalization of the listed US corporations. And this could be explained by the fact that increase in the market capitalization of the listed US corporations leads to the launching by the same corporations new business firms and in such manner consequently the number of the US firms is growing as well.

According to the *Ordinary Least Squares Estimation Technique*(Table 8) coefficients for the model are as follows:

$$\text{GINI} = -0.23945 + 0.24824 \text{ NF} + 0.021972 \text{ MC} + 0.12734 \quad (3)$$

The constant has negative trend -0.23945 and standard error 0.12734. An absolute impact of number of the US firms on 1% change in Gini coefficient of income distribution in the US is equal to 0.25%, while market capitalization of the listed US corporations is about 0.02%. This could be explained by the fact that the criterion representing number of the US firms affect Gini more than the parameter of market capitalization of the listed US corporations.

Accordingly, two statistically proven trends were received here.

The first tendency illustrates us that increasing number of the US firms leads to income inequality in the US. And though theoretically it seems that higher amount of businesses would lead to the higher competitive environment and consequently to the lower level of income inequality, practically it might not be true if the same US firms launching the new business firms. That's how such positive correlation in these two variables could be explained.

The second tendency is the level of the market capitalization of the listed US corporations leads to the increase in Gini coefficient of income distribution in the US. This means that as more financial power of the US economy is concentrated in the

hands of corporations, income equality worsens. This result supports our assumption which claims that as market capitalization increases, income distribution worsens.

In order to check the validity of the model Ordinary Least Squares Estimation is used. (Table 8)

The Coefficient column shows the least squares estimates of parameters of the equation. As could be seen in Table 8 in both cases LNF and LMC the values of coefficients have positive sign.

The Standard Errors column illustrates the standard errors of each coefficient. Here Standard Errors for the each coefficient are quite low, that shows us that coefficients are statistically significant.

The *T-Ratio (T-test)* column is testing whether any of the coefficients is equal to zero or not. It shows individual significance of a variable.

In Table 8;

$n = 24$; $k = 3$ and hence degrees of freedom (d.f.) = $24 - 3 = 21$; confidence level 95% ($\alpha = 0.05$). With $\alpha = 0.05$ and degree of freedom = 21, T-tab = 1.7207

Our Hypotheses are:

H0: LNF = 0 (not significant)

H0: LMC = 0 (not significant)

H1: LNF \neq (significant)

H1: LMC \neq (significant)

Both cases T-Ratio Calculated of LNF = 2.5906 and of LMC = 2.0262 are more than T-Ratio Table = 1.7207. It means that LNF & LMC coefficients go in the rejection area where H0 is rejected and H1 is accepted. Since these coefficients are not \neq equal to 0, we accept that they are significant.

Table 8. Ordinary Least Squares Estimation

Dependent variable is LGINI			
24 observations used for estimation from 1988 to 2011			
Regressor	Coefficient	Standard Error	T-Ratio
C	- 0.23945	1.3974	- 0.17136
LNF	+ 0.24824	0.095823	+ 2.5906
LMC	+ 0.021972	0.010844	+ 2.0262
R-Squared	0.87065		
R-Bar-Squared	0.85833		
Standard Error of Regression	0.012734		
F-Statistics F (2,21)	70.6732		
Residual Sum of Squares	0.0034052		
Equation Log-likelihood	72.2714		
Akaike Info. Criterion	69.2714		
Schwarz Bayesian Criterion	67.5043		
DW-Statistics	1.1341		

Table 9. Diagnostic Tests

Test Statistics	Lagrange Multiplier Version
Serial Correlation	CHI-SQ (1) = 4.1715
Functional Form	CHI-SQ (1) = 10.2581
Normality	CHI-SQ (2) = 3.1062
Heteroscedacity	CHI-SQ (1) = 3.2901

R-Squared is the coefficient of determination indicating goodness-of-fit of the regression. Since the meaning of it here is 0.87065 that is enough close to 1, it means that regressors have high level of the goodness-of-fit. At the same time it is necessary to mention that this is a biased estimate of the population R- squared, and will not decrease even if additional irrelevant regressors are added.

Adjusted R-Squared (R-Bar-Squared) is an adjusted version of R^2 that is designed to penalize for the excess number of regressors that do not add any to explanatory power to the regression. This statistic is always smaller than R^2 and will

definitely decrease in the case of adding new regressors. Naturally, R-Bar-Squared is less than R-Squared and is equal to 0.85833, however it anyway confirms the general tendency of R-Squared statistics be close to 1.

Standard Error of Regression is an estimate of σ , standard error of the error term. The square root of s^2 is called the standard error of the equation. Since the standard error is at the enough low level of 0.012734, it means that in general the model doesn't have significant error in it and is reliable enough.

F-statistic tries to test the hypothesis that all coefficients (except the intercept) are equal to zero. F-statistics checks the overall significance of the model. This statistics has F (p-1, n-p) distribution under the null hypothesis and its p-value indicates the probability that the hypothesis is indeed true.

$$H_0: R^2 = 0 \text{ (not significant)} \quad H_1: R^2 \neq 0 \text{ (significant)}$$

Our F-Statistics result is equal to 70.6732 and is significantly higher than the table meaning of F-Statistic (2, 21) at confidence level 95% ($\alpha = 0.05$) that is equal to 3.4668 and this automatically puts the calculated F-Statistics in the rejection area. Since H_0 is rejected consequently H_1 will be confirmed proving in such way that $R^2 \neq 0$ and the overall significance of the equation is approved.

The Residual Sum of Squares is the sum of squares of residuals. It is a measure of the discrepancy between the data and an estimation equation. A small residual sum of squares (here 0.0034052) indicates a tight fit of the model to the data.

Log-Likelihood (72.2714) is calculated under the assumption that errors follow normal distribution. *Akaike Information Criterion* (69.2714) and *SchwarzBayezian Criterion* (67.5043) are both used for model selection. Normally, in the comparison of the two alternative models smaller values of one of these criteria will be an identification of a better model.

Durbin-Watson Statistic Tests whether there is any evidence of serial correlation between the residuals. As a rule of thumb, the value smaller than 2 (1.1341) will be an evidence of positive serial correlation.

Now the focus moves to the *Diagnostic Test* of the Ordinary Least Squares Estimation (Table 9). To check whether during the calculations all requirements were met to get reliable statistical results and escape possible biases and errors.

Here the attention will be drawn on the next 4 main criteria of diagnostic test:

Serial Correlation is a relationship between a given variable and itself over various time intervals. For checking whether serial correlation exists or not, it is needed to compare the received chi-squared distribution (CHI-SQ) to the table meaning of CHI-SQ. Chi-square or χ^2 -distribution with k degrees of freedom (in this particular case 1) is the distribution of a sum of the squares of k (1) independent standard normal random variables. If at confidence level 95% ($\alpha = 0.05$) the value of chi-squared distribution received by Lagrange Multiplier method is higher than the table value then autocorrelation exists, if lower – then there is no autocorrelation.

CHI-SQ Received (1) = 4.1715 CHI-SQ Table (1) = 3.841

H0: $\rho = 0$ (Existence of autocorrelation) H1: $\rho \neq 0$ (No autocorrelation)

Since CHSQ Received (1) = 4.1715 > CHI-SQ Table (1) = 3.841, H0 is accepted and the conclusion is that there is autocorrelation in the estimated regression. It has been already noticed before that there is a correlation between the number of the US firms and market capitalization of the listed US corporations. And such autocorrelation could be easily explained by the interconnected nature of the studied parameters. As we have concluded above, market capitalization of the listed US corporations correlate with the number of the US firms, because the very same giant firms open many branches, franchising and/ or new firms.

A *Functional Form* is a function that can either be applied to other function (i.e. one or more of its *operands* or *arguments* are itself function) or yield function as result. If at confidence level 95% ($\alpha = 0.05$) with $k=1$ degree of freedom the value of chi-squared distribution received by Lagrange Multiplier method is higher than the table value then misspecification exists, if lower – then there is no misspecification.

$$\text{CHSQ Received (1)} = 10.2581 \qquad \text{CHSQ Table (1)} = 3.841$$

$$H_0: \gamma = 0 \text{ (Existence misspecification)} \qquad H_1: \gamma \neq 0 \text{ (No of misspecification)}$$

Since $\text{CHSQ Received (1)} = 10.2581 > \text{CHI-SQ Table (1)} = 3.841$, H_0 is accepted. The presence of the misspecification in the mathematical model again could be easily explained by interdependency of the market capitalization of the listed US corporations and the number of the US firms and this result in one of the findings of this thesis.

Normality tests are meant to identify whether a data set is well-modeled by a normal distribution or not. If at confidence level 95% ($\alpha = 0.05$) with $k=2$ degree of freedom the value of chi-squared distribution received by Lagrange Multiplier method is higher than the table value then normality of residuals is not accepted, if lower – then it is accepted.

$$\text{CHSQ Received (2)} = 3.1062 \qquad \text{CHSQ Table (1)} = 5.991$$

$$H_0: u_t = 0 \qquad H_1: u_t \neq 0$$

(Residuals are not normally distributed) (Residuals are normally distributed)

Since $\text{CHSQ Received (2)} = 3.1062 < \text{CHI-SQ Table (1)} = 5.991$, H_0 is rejected and respectively H_1 is accepted. The estimated regression the normality of residuals is accepted. Therefore, it means that the data of residuals of the mathematical model is normally distributed and fits the requirements of the model being arranged in the proper way.

Heteroscedasticity: in statistics, a collection of random variables is heteroskedastic if there are sub-populations that have different variabilities from others. Thus heteroscedasticity is a contrary statistical phenomenon to homoscedasticity. If at confidence level 95% ($\alpha = 0.05$) with $k=2$ degree of freedom the value of chi-squared distribution received by Lagrange Multiplier method is higher than the table value then the estimated regression is heteroscedastic, if lower – then it is homoscedastic.

$$\text{CHSQ Received (1)} = 3.2901$$

$$\text{CHSQ Table (1)} = 3.841$$

$$H_0: \delta_{yt}^2 = \delta^2 \text{ (heteroscedasticity)}$$

$$H_1: \delta_{yt}^2 \neq \delta^2 \text{ (homoscedasticity)}$$

Since $\text{CHSQ Received (1)} = 3.2901 < \text{CHI-SQ Table (1)} = 3.841$, H_0 is rejected and H_1 is accepted. The estimated regression is homoscedastic. Hence, the fact of the data in the model being homoscedastic means that all random variables in the sequence have the same finite variance and the goodness of fit of the model is not overestimated.

The empirical results of the statistical part of the research shows that each parameter in particular (the number of the US firms and market capitalization of the listed US corporations) and constructed mathematical model in general are not containing any significant biases and errors and also are matching requirements of goodness of fit.

Therefore, it appears that the model is statistically reliable and the claim that Hypothesis 0 (NF and MC are not correlating with GINI coefficient significantly) was rejected and Hypothesis 1 (NF and MC are correlating with GINI coefficient significantly) was approved from the quantitative side of the research.

The equation (3) that was constructed in the result of the practical analysis:

$$\text{GINI} = -0.23945 + 0.24824 \text{ NF} + 0.021972 \text{ MC} + 0.12734 \quad (3)$$

This model reflects that performance of the corporatocracy contributes in the increasing the income inequality among the population of the US. And such component

of corporatocracy as the number of the US firms affects it by 0.25%.Also, market capitalization of the listed US corporations and increase in Gini coefficient are positively correlated at 0.02% level.

Chapter 4

CONCLUSIONS AND SUGGESTION OF THE RESEARCH

4.1 Conclusions and Findings of the Research

The research identifies the impact of corporations on the US economy and politics. The main idea of the research is the hypothesis that corporatocracy is a new abutment of the governance of the US where the main real economic and political power is concentrated in the hands of corporations and corporatocracy is worsening the income distribution in the US.

Accordingly, the methodological foundation of the study was conducted with the help of qualitative and quantitative techniques.

In the qualitative research, the existence of corporatocracy through the theoretical phenomenon with preconditions of emergence and mechanisms of activities was presented. The nature of corporatocracy's activities has certain negative character that has started from the doubtful origin of the corporate power and has been continuing to influence the economy, politics and society of the US.

In the quantitative part the statistical analysis shows the influence of corporatocracy on increasing the income inequality among the population of the US. The number of the US firms appears to have an unexpected positive sign and the level of positive correlation with the income inequality parameter by 0.25%. The reason for this correlation is explained as the same firms are opening new branches, franchises

or new firms. And market capitalization of the listed US corporations worsens the income distribution by 0.02%.

4.2 Suggestions for the Future Researches

It would be pretty useful to examine the international aspect of corporations and their cooperation with each other and with the governments of foreign countries. New aspects of corporatocracy would be released from the side of foreign corporate activities.

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APPENDICES

Appendix A: Coefficient Gini (GINI), Number of the US firms (NF) and market capitalization of the listed US corporations (MC) in \$ billions and the logarithmical meanings of the over mentioned variables (1988-2011)

	GINI	NF	MC	LGINI	LNF	LMC
1988	42.6	4954645	2789.999903	3.7518542	15.415836	7.933796
1989	43.1	5021315	3509.999895	3.7635229	15.429202	8.1633712
1990	42.8	5073795	3060.000096	3.7565381	15.439599	8.0261702
1991	42.8	5051025	4090.000048	3.7565381	15.435101	8.3163002
1992	43.3	5095356	4489.999811	3.7681526	15.443840	8.4096079
1993	45.4	5193642	5136.198926	3.8155121	15.462945	8.5440685
1994	45.6	5276964	5067.015979	3.8199077	15.478861	8.5305073
1995	45	5369068	6857.622000	3.8066624	15.496164	8.8331160
1996	45.5	5478047	8484.433000	3.8177123	15.516259	9.0459883
1997	45.9	5541918	11308.779000	3.8264651	15.527851	9.3333346
1998	45.6	5579177	13451.352000	3.8199077	15.534551	9.5068349
1999	45.8	5607743	16635.114000	3.8242840	15.539658	9.7192710
2000	46.2	5652544	15104.037000	3.8329797	15.547616	9.6227173
2001	46.6	5657774	13854.616194	3.8416005	15.548541	9.5363737
2002	46.2	5697759	11098.101530	3.8329797	15.555583	9.3145293
2003	46.4	5767127	14266.265700	3.8372994	15.567684	9.5656529
2004	46.6	5885784	16323.726300	3.8416005	15.588050	9.7003749
2005	46.9	5983546	16970.864548	3.8480176	15.604523	9.7392533
2006	47	6022127	19425.854794	3.8501476	15.610951	9.8743601
2007	46.28	6049655	19947.283820	3.8347099	15.615511	9.9008482
2008	46.6	5930132	11737.645610	3.8416005	15.595557	9.3705565
2009	46.78	6142793	15077.285740	3.8455412	15.630790	9.6209446
2010	47	6199544	17138.978000	3.8501476	15.639986	9.7491105
2011	47.7	6256295	15640.707100	3.8649313	15.649098	9.6576322

AppendixB: 30 US Companies that spent more on lobbying than they paid in (2008-2010)

Company	US Profits (\$ billion)	Taxes Paid (\$ billion)	Lobbying Expense (\$ million)
General Electric	10.460	-4.737	84.35
PG&E	4.855	-1.027	78.99
Verizon Comm.	32.518	-951	52.34
Wells Fargo	49.37	-681	11.04
American Electric	5.899	-545	28.85
Pepco Holdings	882	-508	3.76
Computer Sciences	1.666	-305	4.39
Center Point Energy	1.931	-284	2.65
NiSource	1.385	-227	1.83
Duke Energy	5.475	-216	17.47
Boeing	9.735	-178	52.29
Next Era Energy	6.403	-139	9.99
Con. Edison	4.263	-127	1.79
Paccar	365	-112	0.76
IntegrYS Energy	818	-92	0.71
Wisconsin Energy	1.725	-85	2.45
DuPont	2.124	-72	13.75
Baxter International	926	-66	10.45
Tenet Healthcare	415	-48	3.43
Ryder System	627	-46	0.96
El Paso Corp.	4.105	-41	2.94
Honeywell	4.903	-34	18.3
CMS Energy	1.292	-29	3.48
Con-Way	286	-26	2.29
Navistar	896	-18	6.31
DTE Energy	2.551	-17	4.37
Interpublic Group	571	-15	1.3
Mattel	1.02	-9	0.84
Corning	1.977	-4	2.81
FedEx	4.247	37	50.81
Total	163.79	-10.6	475.67