Chapter 1
Towards a logic of elite agency

The inquiry into the nature of elites begins by delineating what elites are and what they are not. To this end, we will first discuss two fallacies that have hampered clear reasoning on the subject: the elite denial fallacy and the elite populist fallacy (1.1). These set the stage for consideration of a third; the non-elite rule fallacy, discussed later in this work. In the subsequent section, a wide-ranging literature review supplies ideas and context for a working definition of elites and associated conceptual elements (1.2). This inquiry evaluates and takes positions on *anacyclosis*, Marxist thought, power elite theory from sociology, elite theories from political science, and economic theories such as classical elite theory and collective action logic. This exercise facilitates the development of three basic propositions on the logic of elite agency in the closing section (1.3) and serves as the basis for the conceptual link between elite business models and value creation/extraction that is advanced in Chapter 2.

1.1 Denial and populism: Elite fallacies

The study of elites is conditioned by two widespread fallacies. The elite denial fallacy ('elites don't exist') negates the agency of elites and the idea that they are a discrete, high-impact social phenomenon. At times this fallacy is advanced to deflect social scrutiny and even academic inquiry into the subject of elites, often as a response to the elite populist fallacy ('elites are bad'). This second fallacy takes the opposite position—elites do exist—and suggests that they are a root cause of most socio-economic ills. Elite agency ('what elites do') is taken to be overwhelmingly detrimental for society in this second fallacy (which is a recurring point in many narratives designed to court the favor of non-elites). The elite denial fallacy is rejected at the beginning of this book and additional arguments are subsequently offered to refute it throughout this work. The elite populist fallacy is also addressed throughout this inquiry with theoretical and empirical evidence, and especially so in the discussion of elite quality (in Chapter 6). A third fallacy, amply referenced later in this work (see Sections 3.3.3 or 8.1.3)—the non-elite rule fallacy ('people power')—mirrors the logic of the first fallacy and constitutes an aspirational twist of the second (see the summary of all three fallacies in Table A4.1).

The elite denial fallacy is exemplified by the position of Berle (1968, p. 202), an official in the Roosevelt Administration, who dismissed the idea that the "elite exercises power or that any 'class' governs or rules". Members of UK elite coalitions surveyed by Reeves and Friedman (2024) find the narrative of a closed access, self-perpetuating elite distasteful and attribute their own high positions in society to meritocratic hard work and talent. There are also the pluralist versions of the elite denial fallacy such as those that recognize "community power" where "rarely could a single elite be discovered im-

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posing itself in each area of decision, policy, and conflict" (Merelman, 1968, p. 451). Cryptocurrencies claim that elites should not exist and Bitcoin is characterized in its foundational white paper as having "no central authority" (Nakamoto, 2008, p. 4). Whether in Washington or in cyberspace, the embrace of the denial fallacy is often a reaction to the elite populist fallacy, encapsulated in Mills' "power elite" (1956) or Domhoff's "governing class" in *Who Rules America* (1967) and *The Higher Circles* (1970). These theories link to a tradition in American political thought harking back to founding father and second President, John Adams, who feared "the tendency of the elite few to undermine both popular representation and effective government" (Mayville, 2015, p. 5). Berle considered negative characterizations of elites to be neo-Marxist "fallacious piece[s] of propaganda" bent on liquidating a "selfish oligarchy" (1968, p. 202). The literature review in Section 1.2 confronts the denial fallacy through wide-ranging descriptions of the dominant agency of elites that are consistent with a realistic theory of the political economy and society. The elite relationship to power (e.g., see Sections 4.4 and 4.5) and measurements of the actual power that elite coalitions and the elite system hold (see the EQx 'power' sub-index in Chapter 6) are discussed to shed light on a question that has long been a matter of contention: "From the earliest writings in social science there have been lively debates over the extent to which societies are dominated by elites" (Kerbo & Della Fave, 1979, p. 5).

The elite denial fallacy is also substantiated by a different class of arguments that posit the theoretical irrelevance of elites: elites may exist, yet they are not pertinent as a discrete socio-economic concept since they are not required to explain variance in political economy outcomes. For instance, in relation to free markets and perfect competition, "the marginal rates of substitution between any two commodities or factors must be the same in all their different uses" (Hayek, 1945, p. 519). Any differences in wealth, power, or coordination capacity are temporal because, "above cost payments to any entrepreneurs or resource owners must attract other profit rent seekers to enter identical or closely related employments" (Buchanan, 1980, p. 5). Under classical economic assumptions, elites form but remain in a fragile or transient state, their ascent and consolidation irremediably blocked by the logic of competition that preempts lasting privilege and influence. New market entrants, who constantly propose substitutes that embody better ideas or new knowledge, place overwhelming pressure on the profit margins and residual incomes of incumbent elite business models. While the management strategy literature emphasizes differentiation and entry barriers to competitors to sustain profitability (see Porter, 1980), *de facto* strengthening market power, the theory of competition under maximalist free-entry assumptions precludes market dominance and the sizable value appropriation by business models associated with elites.

To what extent does the persistence of high residual income (profit) generating elite business models point to elite agency, challenging classical and Hayekian assumptions? Perhaps elite power short-circuits the free market? As a matter of fact, elites running business models that are not challenged by other profit-seekers for protracted periods of time are described across ages and geographies in their full splendor; from Popes, rulers of Caliphates, and political mavericks such as Otto von Bismarck, to contemporary high-tech entrepreneurs like Pony Ma, the five miners that control Bitcoin's network operations (Kharif, 2020a) or Elon Musk. The "personal biography approach" towards studying elites developed by Krcmaric, Nelson and Roberts (2020) is, however, not the direction taken by this work. The focus is rather on how elites play determinant roles in the historical and economic trajectories of nations.

Fukuyama (2011, p. 336) explains the fate of the French *Ancien Régime* elite system through its "ultimate weakness and inability to tax or control its own elites". Kerbo and McKinstry, in the book *Who Rules Japan?* (1995), analyze the country through the lens of an elite imbued with Shintoistic values, dominating the country since the end of World War II and achieving—at least until the late 1980s—impressive economic performance. On the other side of the Pacific, the early promise of America was visible in the turnover dynamics of elites whose merchant business models amassed fortunes as they evolved in synchronicity with new technologies from one century to the next:

> "urban merchant capitalists . . . were the wealthiest, best informed, and most powerful segment of early American society" (1971, p. 6). These all-purpose merchants nevertheless gave way to specialized merchants early in the 19th century; such merchants then became "the most important men in the economy" (1971, p. 8). Yet specialized merchants in turn found their functions sharply cut back by the rise late in the 1800s of integrated manufacturers: "The long reign of the merchant had finally come to a close. [. . .] A new economy dominated by the modern, integrated manufacturing enterprise had arisen" (1971, p. 12). (Porter & Livesay, 1971, as cited in Williamson, 1981, p. 561)

The natural sciences also provide arguments to debunk the elite denial fallacy, as for instance does the idea of pervasive hierarchy articulated by Bejan (2020, p. 26): "Hierarchies are everywhere [in the lung, the river basin, and the forest], including where it matters to us the most, in society".[3] A still more audacious connection could be made to thermodynamics, the fundamental laws of physics relevant to all natural sciences. The under-

3 Bejan intriguingly writes that certain hierarchies "are invisible to most, and known only to a few. In the field of social dynamics, [these] are known as dark networks and mafias" (2020, p. 26), while Lingelbach and Rodríguez Guerra note that oligarchs "are secretive and stealthy, flying under the radar for as long as possible" (2023, p. 195). Note that Auguste Kerckhoffs' design principle (from cryptography) for systems, rejects "security through obscurity" as illusive (see Swire, 2004), and emphasizes their safety when all about them is public, and "the enemy knows the system" (Shannon, 1949, p. 662). Secrecy makes elite coalitions and their systems fragile and unsustainable. Conversely, when antagonistic elites and non-elites know who the established elites are, these are institutionally secure in their positions. The ETED claims that elite protection is also augmented by the existence of barriers such as the exclusive access to institutional change mechanisms and the opacity of elite business model rule formation (see the 'elite vs non-elite knowledge gap' hypothesis of Section 2.2). As a contemporary illustration, AI elites are known to everybody, but this is not necessarily the case for the rules by which their power and residual income are enabled and accumulated, see Section 5.2.2). The ETED's inquiring focus is on the residual income of the business model, while elites atop hierarchies are a visible reality. In sum, secure elites are clearly discernable (see the definition of elites in Section 1.2.4) and through the use of cross-disciplinary political economy analysis, so are their business models.

standing of energy and entropy is offered as a framework to appreciate the social sciences:

> thermal energy of a uniform temperature cannot be converted into work. As Lord Kelvin observed long ago, it is not possible for ships to sail by using the energy of ocean waters, immense though that energy is; for some depth, that energy is of uniform temperature. (Georgescu-Roegen, 1986, p. 5)

Taking a page from "the nature of nature" (Brown, Gupta, Li, Milne, Restrepo, & West, 2002), elites are but a manifestation of power laws in the realm of society (see "social fractals" in O'Brien et al., 2023, p. 1452). This inquiry will suggest that in the political economy, development is impossible without elites and their power (energy) differentials expressed as hierarchies. As for the extensive track record of elites at the top of the socio-economic pyramid, organic chemistry supplies empirical evidence in ways that the social sciences and the humanities cannot. For example, DNA evidence confirms the existence of "first-degree incestuous union", in turn found to associate with being on the long end of dietary and fine-scale haplotypic structure variance, all of which indicate the historical existence in Ireland of a closed elite. The *Nature* study in question, demonstrating how elites and non-elites differ in terms of privilege is aptly titled: "A Dynastic Elite in Monumental Neolithic Society" (Cassidy et al., 2020, p. 384). Carles Lalueza-Fox's *Inequality: A Genetic History* (2022) shows how DNA sequencing technologies reveal genetic marks associated to migratory movements or funerary practices that prove the existence of socio-economic pyramids and elite agency throughout history.

Whether in Neolithic Ireland or Silicon Valley, the conspicuousness of elite privilege and power ushers forth the elite populist fallacy ('elites are bad'). In modern times, this tradition harks back to Marx and Engels' writing on the class struggle (1848/1969) and has strong roots in 20th century sociology, especially in the works of Mills (1956) and Domhoff (1967, 1970). Debunking the populist fallacy requires both a theoretical basis and empirical evidence linking elites to positive human and economic development outcomes. The problem in doing so faces a different challenge: while elites are a recurring and observable phenomenon and elite power shapes the political economy, elite agency is not integrated as a conceptual element into mainstream economic theory, nor is it operationalized in economic models. That necessitates the use of research on elites across diverse disciplines and that becomes a most compelling and indispensable resource for this inquiry (see, for example, elite conceptualizations in the literature review in Section 1.2 below). Still, in the prevailing economic paradigm, while elites are not necessarily negated, their agency remains at the margins, outside established macroeconomic models and seldom targeted by policymaking. Any elite theory of economic development that addresses unexplained variance in growth or other outcomes will, by virtue of linking elites to positive developmental outcomes, debunk the second fallacy.

1.2 Towards a definition of elites: A multidisciplinary literature review

It is often pointed out that "the process of social development is in reality a multidimensional one, whose different elements interact with one another in complex ways" and so, for instance, new institutional theory recognizes that economic growth requires the study of politics (Fukuyama, 2016, p. 208). To provide a realistic understanding of economic development, this first survey of the literature on elites is multidisciplinary, and a stepping-stone towards the integrative logic of diverse domains (see Figure P.1).

Elites were first theorized about very early on in history. They are the central construct in Aristotle's *Politics*, and still figure in modern political science theory (e.g., Best & Higley, 2018; Pakulski, 2018). Elites are also seen as critical drivers in the field of history, for example, in the Marxist view where "the history of all hitherto existing society is the history of class struggles" (Marx & Engels, 1848/1969), or in historical interpretations of national development (such as Fukuyama, 2011). Brezis and Temin emphasize the importance of elites in economic history and point to the works of Cassis (1997), Crouzet (1999), and Lachmann (2002), while in reviewing the "literature that analyzes the effects of the elite on economics" ascertain the non-mainstream nature of such writing "that departs from pure economics" and strays into the fields of "psychology, political science and sociology" (2007, p. 5). In economics, elites have also been theoretically discussed (e.g., Pareto, 1968/1991; Mosca, 1939; Michels, 1962/1999; Olson, 1965/1971, 1982; North, Wallis, & Weingast, 2006; Acemoglu, 2006; Robinson, 2010) albeit, as mentioned above, the concept is rarely formalized or operationalized and remains outside of the mainstream. Sociology is lucid about elites as a conceptual element that is "a convenient way to designate categories standing at the apex of societies" (Daloz, 2010, p. 1). Mills' much-debated *The Power Elite* (1956), led to specific contentions that might appear far-fetched, such as the existence of a global ruling class (Robinson & Harris, 2000), or the so-called "transnational capitalist class" (Sklair, 2002). Management science examines elites too, but at the micro-level of firms, where it singles out "dominant coalitions" (March & Simon, 1958; Thompson & McEwen, 1958; Cyert & March, 1963) with elite members distinct from "non-members" (Pearce, 1995, p. 1075). Upper echelons theory links their agency, often determined by their background characteristics, to organizational outcomes (Hambrick & Mason, 1984).

Many of the elite theories and conceptualizations reviewed next are sorted by analysis level and perspective in the classification matrix presented in Figure A5.2. The analysis level—macro to micro—ranges from the large-scale (e.g., elites as a factor in the last 10,000 years of social development, in North, Wallis, and Weingast, 2006) to the small-scale (e.g., the characteristics and decisions of top management teams shaping organizational behavior, in Hambrick and Mason, 1984). The analytical perspective—particularism to universalism—ranges from context-specific (e.g., Japan's "iron triangle", in Kerbo and McKinstry, 1995) to context-transcending theorizing (e.g., collective action logic, in Olson, 1982).

For reference purposes, a summary of each of the conceptualizations reviewed in this section is available in the Appendix (see Table A1.1), outlining both their working assumptions and the position this work takes in terms of adopting, adjusting, or rejecting the associated ideas.

1.2.1 Grand socio-political conceptualizations of elites

This sub-section discusses two cardinal socio-political conceptualizations of elites: the ancient Greek *anacyclosis* theory of elite rule, and Marxist class theory (1867/1959b), both of which still inform certain contemporary conceptions of elites and their agency.

The *anacyclosis* theory of cyclical elite rule. Aristotle, in his hierarchical classification of regimes (*Politics*, 1912, Book III) and Polybius (*Histories*, 1889, Book VI) suggests a cyclical theory of political development: *anacyclosis* (or 'eternal revolutions'). States, as this notion is explained by Podes (1991), undergo different types of rule by elites (of one, of the few) as well as by non-elites (of the many), in sequence. Each of these forms of government oscillates between benign and perverted versions. History starts with primitive monarchy (benign rule by one), which, after a series of (mostly violent) rule transitions, culminates in anarchy (perverted rule by the many). Machiavelli (1517/1883, 1.2) later refers to this idea of recurrence "for this is the circle revolving" in the *Discourses on the First Decade of Titus Livius*, although his cycles have patterns that are distinct from Polybian ones: his focus is on how to prevent political "degeneration" and the devastations of political transitions and intra-elite contests for which he suggests a "mixed constitution" that optimally combines different forms of government (Gagné, 2011). This focus on intra-elite contest rules followed in the footsteps of Cicero (*The Republic*, 1829/2017) who emphasized that while constitutional solutions are desirable, they will not withstand the "corruption of the ruling classes" (Atkins, Harrison, & Lane, 2000, p. 477) suggesting that elites are more powerful than the institutions designed to constrain them.

In the original conceptualization of *anacyclosis*, benign rule by the few *aristoi*—"the best" or aristocracy—is possible where "the economic elites are acting out of virtue and for the sake of the general welfare" (Neil, 2011, p. 28). Aristocracy is in dialectical opposition to oligarchy, which Plato and Aristotle describe as "the rule of the rich" (Bradshaw, 2011, p. 140) where narrow economic elites' "rule out of self-interest" (Neill, 2011, p. 28). Proudhon (1851/1971, p. 84), however, embraces the elite populist fallacy and does not see the ruling few as capable of being virtuous: their plunder and theft sows the seeds for violent leveling revolutions which then provide the conditions for reaction and counter-democratic revolutions, "and so on, and again and again" (Koivukoski, 2011, p. 180). To this day, cyclical conceptualizations of the political economy centered on elites are advanced, at times in pursuit of purported social agendas. For instance, Strauss and Howe's *Fourth Turning: An American prophecy - what the cycles of history tell us about America's next rendezvous with destiny (1997)* frames (American) history as cycles that end "when the nation's institutions become unfit to serve the interests of anyone other than the elite" (Barrett, 2017). The key message in Rubio's *Decades of Decadence: How our Spoiled Elites Blew America's Inheritance of Liberty, Security, and Prosperity* (2023) is clear. Such ideas incorporate calls for action: for example, they informed Steve Bannon's anti-elite narratives ("drain the swamp"), which he leveraged in his capacity as CEO of Donald Trump's 2016 presidential campaign (Guilford & Sonnad, 2017). Turchin (2023) argues that the rhythm by which the elite turns on and off the "wealth pump", which is designed to suck non-elite wealth up to the top, determines the phases of prosperity and collapse of nations.

Marx's class theory. The theoretical version of Marxist thought in *Capital: A Critique of Political Economy* (1867/1959b) and Marx and Engels' applied version in the *Manifesto of the Communist Party* (1848/1969) saw revolutionary "class struggle" (even if 'class' was never explicitly defined) in a Hegelian (1812/2010) framework around the elite business models of industrial production. The conceptualization of "exploiters vs exploited" echoes concerns about extraction, with the necessary tension between the upper/rich vs lower/poor classes defining both the course of history and the political economy (Andrew, 1975, p. 458). Specifically, the 19th century version of this conflict pitted the narrow property-owning class against the proletariat or the industrial working class. Marxism emphasizes classes rather than institutions as the organizing powers in society (Barrow, 2007, p. 403). The Marxist solution—a "vision of a classless society"—is considered unrealistic and naïve by classical elite theory (see Section 1.2.3), which conceives the elite with its "circulations and struggles" as being an "eternal" feature of social systems (Higley & Pakulski, 2012, p. 321).

1.2.2 Contemporary conceptualizations of elites

The 20th century saw the emergence of several descriptions of elites in the fields of sociology and political science, with some having an impact in economics and even management science. Below, some of the most salient contemporary conceptualizations of elites are discussed.

Power elite theory. The connections between elites and institutions are central to Mills' power elite theory with "institutions the necessary bases of power, of wealth, and of prestige" (Mills, 1956, p. 9). Mills developed power elite theory in the context of post-World War II America. He saw leadership positions in business, political administration, and the military as "an intricate set of overlapping cliques", with shared values and interests making joint "decisions having at least national consequences" (as cited in Bell, 1958, p. 239). Along similar argumentative lines, Domhoff's (1967, 1970) "governing class" model "attempts to show that one of the most important means of upper-class dominance is through holding key institutional positions in the society" (Kerbo & Della Fave, 1979, p. 6). Such power structures also operate at the local community level as is recounted by Hunter (1953). Cousin, Khan, and Mears (2018) recount how the study of elites in sociology is often anchored in the Bourdieusian approach to elites and social domination—as, for instance in Bourdieu's *The State Nobility: Elite Schools in the Field of Power* (1996). This broader theoretical trajectory, at times not far from Marxism and redolent of the elite populist fallacy, has the interlocked elite capturing government policy through its dominance of institutions.

Specific conceptualizations of a power elite. Notions akin to or originating from power elite theory maintain the institutional emphasis while accentuating distinct elements. For instance, iron triangle notions have (rather closed) elite coalitions composed of business interests, the legislative body, and the civil service, coordinating to influence policymaking in countries as distinct as the US or Japan (Adams, 1981; Gais, Peterson, & Walker, 1984; Kerbo & McKinstry, 1995). Some power elite derivations transcend borders. Elites conceived in political power terms have also been formalized in economic theories of regulation (e.g., Stigler, 1971).

Transnational elite constructs. In the age of globalization, the scope of action for power elite coalitions broadens accordingly and constructs such as a global power elite "superclass" (Rothkopf, 2008) or "cosmopolitan capital" (Bühlmann, David, & Mach, 2012) have been developed to characterize the new elite reality. The transnational capitalist class (TCC) is theorized as consisting of four factions: the major multinational enterprises, as well as "globalizing bureaucrats and politicians, globalizing professionals, and consumerist elites" (Sklair, 2012, p. 144). The integration of Europe is viewed in this vein as a top-down "elite project" (Best, Lengyel, & Verzichelli, 2012). In a rather critical view of globalization, anchored by neo-Gramscian perspectives on hegemony (Cox, 1983; Bieler & Morton, 2004), political economies are no longer bound by the nation state.[4] This raises the issue of the accountability of global elites (Hoffmann-Lange, 2012) and of institutional arbitrage and its consequences. Can elite business models manage to escape the control of local institutions if transnational institutions like the World Bank, the WHO, NATO or the EU become their anchor, as Jönsson and Tallberg (2010) suggest? The elite coalitions running these business models are likely to have converted their strong bargaining positions over local domestic institutions into a supranational "transnational state apparatus" that primarily serves their interests (Robinson & Harris, 2000). Nonetheless, the concept of transnational elites and their connection to decisive attendant transnational institutions is by no means generally accepted. For instance, Hartmann (2017) emphasizes the national character of elites and dismisses concepts such as "cosmopolitan elites" or that elite business schools are institutions implicated in the formation of transnational elites as a "myth".

Elites as the custodians of narratives. Diverse authors directly or indirectly connect narratives to elites and power—from Plato's "the noble lie" (Dombrowski, 1997) or

4 In the ETED, borders matter greatly, and so the relevant institutional context for elite coalitions and their elite business models is found in the political economy of the nation state. This informs the analysis of cross-border elite business models (see Sections 7.3.2 and 7.3.3).

Gramsci's cultural "hegemony" of the "dominant group" (Hoare & Nowell Smith, 1999, p. 145) to Beckert's (2016) "fictional expectations"—a link that is amplified and theorized about in this work. The advocacy coalition framework (ACF) is a specific "causal theory of the policy process" that explains policy decisions in political sub-systems, where the gravitational force of shared beliefs matters as much as specific interests (Jenkins-Smith & Sabatier, 1993). The idea that narratives are a coordinating force in elite formation and agency is central to the ACF view and also critical to the ETED (and first discussed in Section 1.3.2, see Figure 1.2). The ACF framework shows how narratives anchor the formation of elites (i.e., elite business models) that exist across the political spectrum from Left to Right. It also illustrates that dominant elite coalitions need not be narrow. Broad, extensive groups such as issue networks (gun owners, environmental activists, supporters of abortion rights), or professions (lawyers, government consultants, civil servants) are narrower than society at large and can be as effective as business elites in furthering their business model interests.

The technocratic ideal view. *Exodus* 19:6 (King James Bible, 1769/2017) exhorts a technocracy based on morality: "And ye shall be unto me a kingdom of priests, and an holy nation". Political elites have been theorized in terms of their agency ("to rule") and normatively ("to rule well") as far back as Plato's (1969) philosopher kings in the "beautiful city" of Kallipolis (*The Republic*, Book VI). A normative modern version of the philosopher king notion proposes elites as rational technocrats, an idea first espoused by Saint-Simon (1952, p. 72–75, as cited in Putnam, 1977, p. 384). A technocracy and the industrial state "could be directed by man's rationality to bring about a social reformation where poverty, injustice, superstition, and class conflict would be abolished" (Akin, 1977, p. 1). The assumption is that rationalization of the economic order, with the required "separation of politics from administration" would have as elites "scientific experts and problem solvers" (Crane, 2008, p. 1162). Is a modern Veblenian technical aristocracy tasked with "the construction of a new industrial order devoted to maximum production" (Elliott, 1978, p. 94) a feasible political economy project unlike earlier failed Platonic experiments?

Despite its age, the notion of a technocracy has not come to the fore and its theoretical bases are untested. It faces suspicion in the West where it is often viewed as "less responsive, more remote, less sensitive to the needs of disadvantaged groups" (Putnam, 1977, pp. 383, 408). In Asia, on the other hand, core elite coalitions (see Figure 8.1) have turned (often Confucian) technocracy narratives into tangible and rather successful socio-political realities that are quite responsive and sensitive to non-elite needs (e.g., Singapore following the vision of founding father, Lee Kwan Yew). Under the precepts of the ETED, a modern version of technocracy would result from an elite settlement, pact or bargain (Burton & Higley, 1987; O'Donnell & Schmitter, 1986; Khan, 2010; Dercon, 2022) where the core coalition promotes elite cohesion around institutional change associated with specific sustainable value creation elite business models and economic development goals (even when these conflict with the interests of other coalitions in the elite system).[5] Technocratic and reductionist elite agency, along the lines of Morozov's "technocratic solutionism" (2019), is considered in the context of the AI in the final chapter.

Elite research in political science. Sociology has long anchored the study of elites, and Savage (2024, p. 361) highlights its ability "to champion rich and powerful ways of doing descriptive work", thus disrupting conceptual frameworks and enriching paradigms beyond the discipline. Vibrant enquiry was undertaken in the second half of the twentieth century on political elites, including the development of power elite theory and the comparative work of Putman (1976). Noteworthy recent examples of the political elite perspective are found in Vogel, Gebauer and Salheiser's (2019) *The Contested Status of Political Elites* or Best and Higley's (2018) *The Palgrave Handbook of Political Elites*. These contributions, many from European authors, constitute a coherent research platform, able to deliver insights on a multitude of specific issues such as the changing attitude of Italian political elites towards the EU as a result of the financial crisis and the wider implications of this shift (Conti, Cotta, & Verzichelli, 2016). The connection between political power and economic elites is natural, as the latter shape institutional change (e.g., Paniagua & Vogler, 2022). Lobbying theories are a specific and important part of political science, actualizing what Best calls "the symbiosis between political and economic elites" which is so necessary for "modern capitalism" and the Weberian "rational state" (2018a, p. 333). They are discussed in more detail next.

Lobbying theories. Lobbying activity has foundations in public choice theory and rent-seeking theory (e.g., Tollison, 2012) and concerns itself with "the application of economic reasoning to nonmarket decision making" (Ostrom, 1975, p. 848). According to Hall and Deardorff: "lobbying is primarily a form of legislative *subsidy* [. . .] to the enterprises of strategically selected legislators" (2006, p. 69) that serves the profit maximization aims of corporate interests (Hillman, Keim, & Schuler, 2004; Mellahi, Frynas, Sun, & Siegel, 2016). This and similar conceptualizations situate political elites in the role of supplier stakeholders to business principals. For context it should be pointed out that, as per Gilens and Page (2014) and their taxonomy, not all theories of politics (in America) fall into the "economic-elite domination" category that have business interest groups at the center: there are also notions such as "majoritarian electoral democracy" (citizens at the center) or "majoritarian pluralism" (a balance of interest groups). Yet since Beard's (1913) take that the US Constitution is the result of the agency of the economic elite, there is an influential body of thought that sees non-elite rule as fallacious (see Table A4.1) and posits that the economic elite has ascendance over its political counterparts. This view is shared by the aforementioned Mills (1956) and more recently by authors such as Bartels in *Unequal Democracy*

5 The advent of artificial general intelligence (AGI) is expected to disrupt many aspects of the political economy, including policymaking and governance. Could a fair, value-optimizing form of superintelligence reinvigorate the arguments for technocracy? The Epilogue explores this question.

(2008), Winters' *Oligarchy* (2012), and Nader's *Unstoppable* (2014), that sought to elicit joint opposition by a left-right alliance to the emergence of a corporate state, as well as by Holcombe's *Political Capitalism* (2018). Lobbying, as a political process studied in economics, is a prime avenue for institutional capture (e.g., Stigler, 1971; Laffont & Tirole, 1991) and rent seeking (e.g., Tollison, 2012; Tullock, 1967). To researchers it is an essential fact of the political economy that issues the licenses to operate necessary for the "very survival" of interest organizations given the "severe policy threats" these invariably face (see Lowery, 2007, p. 39). While the aim of this book is general theorizing that goes beyond the US context, and the focus is on sustainable value creation by elite business models at the meso- and micro-aggregate levels, these conceptualizations of elites triggering institutional change through power accumulation processes are relevant references.

Dominant coalitions in organizations. Michels' (1962/1999) theory of organization saw elites in hierarchies and bureaucracies as a natural and rational response to management challenges. Pettigrew calls for the "contextual and processual analysis of managerial elites" (1992, p. 163). The dominant coalition concept from the micro-organizational perspective was conceived by Cyert and March (1963) and later coined by Thompson (1967). According to this theory, groups interact and coordinate based on compatible interests. Thompson's notion gained ascendancy with the emphasis on the "political processes in organizations" (Stevenson, Pearce, & Porter, 1985, p. 258). A given group can project influence and enforce its preferences within an organization as it achieves dominant coalition status (Scott & Davis, 2017; Pearce, 1995). Scholars who disagree that Michels' (1962/1999) iron law of oligarchy applies to organizations and "make the theoretical case for truly democratic organizations", still admit that in practice "oligarchy-free" firms not run by dominant coalitions are a rarity (Diefenbach, 2019, p. 558).

Coalitions at the firm-level have been conceived of as shifting entities: as a result of bargaining processes, their agency is often unstable in terms of decision-making, goal-setting, and problem-solving processes, which might lead to ill-defined outcomes (Cyert & March, 1963 as cited in Stevenson, Pearce, & Porter, 1985, p. 257). Importantly, the characteristics of the dominant coalition in a firm have also been found to impact organizational performance (Hambrick & Mason, 1984). This work is premised on elite agency being an essential feature of all economic, social, and organizational phenomena, impacting performance at all levels, from the micro to the macro.

1.2.3 Conceptualizations of elites relevant to economics

Classical elite theory (Italian school of elitism). The three Italian classical elite theorists, Pareto (1968/1991), Mosca (1939), and Michels (1962/1999)—the first two of which have been labeled as "neo-Machiavellians" (Denord, Palme, & Réau, 2020, p. 3)—posit that elites rule all societies. They further specify that such elites are always minorities. Pareto's ideas are derived from the sociological premises of Rousseau and Marx

(Mayhew & Schollaert, 1980). Classical elite theory has its foundations in the early intellectual legacies of Machiavelli (1513/1998) and Hobbes (1651/2002), while the three Italian thinkers also benefited from the "critical and skeptical" influences of Weber, Schumpeter and Ortega y Gasset (all European liberals active between 1890–1940); their "anti-utopian" positions were based on "a political and methodological realism" which implied leadership where "effective governance depends upon talented and skilled leaders imbued with political will, confidence, and foresight" (Pakulski, 2018, p. 9). Their "views of social change" are in "obvious proximity" to Weber's (Pakulski, 2012, p. 38), while Hartmann sees them as "an important ideological basis" for fascism and "authoritarian leadership" (2007a, pp. 2, 3). Yet classical elite theory "sought to ride no political horse" (Higley & Pakulski, 2012, p. 321). Zetterberg (1991, p. 8) pronounces the 'elite' used in Pareto's work "as a value-free term", and the three Italians "describe political behavior as it was, not as it ought to be" (Lerner, Nagai, & Rothman, 1996, p. 3).

Pareto supplies an unambiguous definition of the subject: "The part of the group or class which tries to ensure hegemony over its own group or its own class, or also over all groups and all classes, is called the élite" (Busino, 2000, p. 225).[6] Classical elite theory is consistent with contemporary conceptualizations in economics where the elite is the "small, dominant group that enjoys the power of decision in the various sectors of the economic and social organization of a state" (Brezis & Temin, 2007, p. 1). Elites are "those who score highest on scales measuring any social value or commodity ('utility'), such as riches, power, knowledge," and while elites are recognized in the fields of arts or ethics (i.e., "the most artistic", "the most virtuous"), the classical theorists' emphasis is on "elites within the economy and the body politic" (Zetterberg, 1991, p. 8). Controversially, they imply a "conceptual pairing of elites and non-elites" (Pakulski, 2018, p. 9) where elites concentrate power as unified and efficient rulers, while non-elites are powerless and unqualified to govern themselves. Caveats notwithstanding, classical elite theory's sociological and economic foundations inform this inquiry and Table A1.1 lists the various elements of classical elite theory that the ETED adopts or adjusts. As a side note, while Michels (1962/1999) delved into the psychological features of elite leadership, this work also discusses the topic but from a variety of different perspectives (see, for instance, the 'inextinguishable value creation option of elites', transformational leadership, and the code of ethics in Chapters 7 and 8, Table 7.2, and Figure 8.7).

Theory of groups. *The Logic of Collective Action: Public Goods and the Theory of Groups* (Olson, 1965/1971) posits that large groups have high costs when organizing for collective action and thus see less successful collective action per capita. This chimes with Higley's insight that: "Elites derive from a fundamental and universal fact of

6 This two-level distinction between elites is expounded on in Section 8.1.1 (including Figure 8.1) where a conceptual differentiation is made between (1) elites in general and (1.1) the core elite coalition. Note, however, that in the ETED, the focus is not on "hegemony" but on elite business models, the principal beneficiaries of which are members of elite coalitions.

social life, namely, the absence in any large collectivity of a robust common interest" (2010, p. 162). Small elite groups face relatively low coordination and transaction costs and are more effective, with Olson admitting to the counterintuitive nature of his conclusion: the "surprising tendency for the 'exploitation' of the great by the small" (1965/1971, p. 3). A problematic aspect of these special interest groups, or "distributional coalitions", is described in *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (Olson, 1982) and later works by the same author (Olson, 1996): they tend to flourish over time on the back of redistribution that transfers value away from certain subgroups of society to themselves, and nations so encumbered descend into institutional decay and economic malaise.

Research has provided empirical backing for Olson's thesis that elites ("powerful special interest groups") hamper growth (see McCallum & Blais, 1987, p. 17), while his "theory of institutional sclerosis is generally but certainly not universally supported" (Heckelman, 2007, p. 18). At the same time, scholars suggest mechanisms through which dominant elites are able to extract. For instance, the embedded view of 'social structure' (Granovetter, 2005) is consistent with a "dichotomous society . . . with cooperators prospering in a close-knit, strongly bound elite, and defectors earning low payoffs in a weakly connected periphery" (Gallo, Riyanto, Teh, & Roy, 2019). Olson's ideas are essential to the ETED, as his collective action logic provides an explanation for elite coalition formation and consolidation, while also advancing the link between elites and economic performance.

Institutions as constraints on elites. "The elite—the group in power" (Acemoglu, 2006, p. 516) and its agency is limited by institutional arrangements, and these are essential for economic development (Acemoglu & Robinson, 2013b, 2019a). The implicit normative assumption is that elite agency must be constrained. New institutionalist perspectives see the role of institutions as fundamental in both constraining and enabling elites. As a result of this understanding of the nature of the relationship between institutions and elites, the concentration of power in the hands of narrow elites is seen as the consequence of extractive political institutions (Acemoglu & Robinson, 2019a), not vice versa. The idea that elites shape institutions is implied by Cicero (Atkins, Harrison, & Lane, 2000), argued by the research just discussed on lobbying, found in the literature on institutional capture (e.g., Stigler, 1971; Laffont & Tirole, 1991) or rent seeking (e.g., Tullock, 1967, Tollison, 2012). The two-way causal relationship between elites and institutions is central to the later chapters this book (see, for instance, Figure 4.2).

Social order as an outcome of elite agency. Hobbes' social contract theory (1651/2002) is fundamental to the general understanding of social order, but non-elites may have little or no agency in its formation. Elites create social order, with stratification achieved and maintained through various means, including rituals such as human sacrifice (Watts, Sheehan, Atkinson, Bulbulia, & Gray, 2016). Rooted in the institutional perspective and integrating politics and economics, North, Wallis, and Weingast (2006) develop the open/limited access theory of social order covering the entirety of human history and part of its pre-history (the last 10,000 years). Elite agency establishes social orders with “limited access” that manage to rein in overall violence and create the conditions for specialization and exchange. Presented as a quid pro quo, elites erect barriers to economic entry and benefit from the ensuing rents. Social orders work via highly scalable elite business models, the earliest being that of grain.[7] Farmers, without options to move up socially, paid to their lords or the state a tribute of up to a “fifth of the harvest” (any more would compromise their survival), a *de facto* “rent that elites appropriated for their own subsistence and display” (Scott, 2017, p. 123). Insights into transitions away from limited access, the natural state in traditional societies founded on pre-modern (elite) personal relationships, to “open access” social orders characterized by competition in the political and economic realms “is the holy grail, for it is the process of modern social development” (North, Wallis, & Weingast, 2006, p. 7).

In Olsonian terms (1993, 2000), “stationary bandits” are elites that invest in sustainable social orders and provide public goods on their own terms, in contrast to the comparatively more extractive and short-term oriented “roving bandits”. The agency of the former sows the long-term seeds for development and value creation. The value creation of stationary bandits and open access elite systems informs this inquiry throughout.[8] Yet it is extraordinarily hard for elites to become stationary (think of plutocrats parking their wealth outside of the jurisdictions where it was created) and thereafter to move towards openness. The reason, according to North, Wallis, and Weingast, is that these transitions are premised on institutional change that will be made only if they can “potentially make most elites better off as access opens” (2006, p. 64).

1.2.4 Working definitions of elites and elite agency

This inquiry references the ideas surveyed above and adopts, rejects, or qualifies many of their key tenets, at times by suggesting extensions (see the precise positions taken in Table A1.1). Two working definitions—or first signposts—are now proposed for the elite and elite agency conceptual elements that are fundamental to the elite theory paradigm concerning itself with economics.

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7 “The key to the nexus between grains and states lies, I believe, in the fact that only the cereal grains can serve as a basis for taxation: visible, divisible, assessable, storable, transportable, and ‘rationable.’ Other crops—legumes, tubers, and starch plants—have some of these desirable state-adapted qualities, but none has all of these advantages. To appreciate the unique advantages of the cereal grains, it helps to place yourself in the sandals of an ancient tax-collection official interested, above all, in the ease and efficiency of appropriation” (Scott, 2017, p. 129).

8 Since principal-stakeholder bargaining power differentials (see Proposition 8) are a feature of all economic systems, open access is a matter of degree and never complete—even stationary bandits never completely refrain from extraction. In the ETED, the transformation towards ever-greater degrees of openness that is so critical for development will be chiefly attributed to the dynamics (e.g., intra-elite contests, bargaining power) within the elite system, rather than to non-elite preferences or Hobbesian bilateral elite/non-elite arrangements.

The definition of ‘elite agency’ has its foundations in the ideas that have been reviewed and incorporates notions that will be discussed and developed in subsequent sections:

> Elite agency is ‘what elites do’ in relation to their elite business model as the principals in a coalition of economic, political, and knowledge interests that is narrower than the stakeholders with whom it has a direct or indirect exchange relationship and that exercises leadership to successfully turn the coalition’s lower transaction costs, higher levels of trust, and superior coordination capacity into (bargaining) power that is then converted into society’s largest streams of residual income via value creation or extractive value transfers.

Given the importance of ‘residual income’ to this work, it should be noted that the notion is used in the manner of the value chain (Porter, 1985) in the value creation and appropriation (VCA) framework (e.g., Brandenburger & Stuart, 1996; Coff, 1999; Amit & Zott, 2001; Lepak, Smith, & Taylor, 2007; Di Gregorio, 2013; Garcia-Castro & Aguilera, 2015). Garcia-Castro and Aguilera (2015, p. 139) state: “Traditional corporate metrics of value creation use simple measures such as net income or profit ratios, which can easily be compared across competitors. There are other more refined metrics such as economic added value (Davis & Kay, 1990), which estimates economic profit deducting the firm’s costs of capital”. ‘Residual income’—also variously referred to as profit, earnings, or net income—is used in this work to describe the ‘bottom line’ income left over for the principal beneficiaries of the business model (e.g., the equity holders or owners) from the revenues generated after all expenses, costs, depreciations, amortization, and taxes are paid. That is, prices minus costs. Note that costs also include all the obligations to non-equity capital suppliers (debt holders). While technically both terms are not equivalent, most of this work’s applied frameworks equate residual income with profits (see Figures 7.2, 7.3, and A5.7). ‘Revenue’, on the other hand, refers to the ‘top line’ in the profit and loss (P&L) statement of the organization or business model, generated by the sales of goods or services. The firm-level value chain perspective will employ the terms ‘revenue adjusted’ and ‘residual income’ to refer to the terms ‘revenue’ and ‘profits’ that are used in statutory financial statements. Both pairs of terms have a close correspondence to each other (for further details see Chapter 2 and the equations in Table 2.4).

Elite agency is inexorably linked to organizations, and hence to the micro-level notion of leadership which is discussed in Chapter 7 (see the elite leadership typology in Table 7.2). The gravitational force that holds the elite coalition together is the elite business model (historically ranging from grain to algorithm ownership), which is distinct from regular business models on account of its high value creation and/or appropriation capacity and hence its high levels of residual income, which in turn facilitate elite wealth accumulation. Notwithstanding more detailed descriptions provided later (see Table 4.1), a succinct definition of the ‘elite’ conceptual element would be:

> An elite is a coalition operating society’s leading value creation and appropriation business models that generate the highest quantities of economic activity and/or residual income.

Organizationally, an elite is therefore a business model that has secured from institutions—through wins in the political economy's market, non-market, and narrative market arenas (see Figure 1.2)—the limited rights that afford value appropriation advantages and, in consequence, operates at a discrete sustainable value creation position. Analytically, elites both create and extract value (see Table A4.2).

1.3 Basic propositions on the logic of elite agency

The above overview of the conceptualizations of elites points to the wide-ranging, multifaceted, and diverse nature of the subject: historical and contemporary, sociological and economic, and part of the ideologies of both the Right and the Left on the political spectrum. While some elite coalitions are extremely narrow and concentrated (and all are narrower than their counterparties), many are surprisingly broad and extensive. Evidence-based and realist notions of elites abound, as do populist and idealist conceptualizations, with many of the latter clearly non-falsifiable. This inquiry now proceeds to develop a set of 20 intendedly testable propositions—some unfolding into subsets, conjectures, or new conceptual elements—on elites. Taken together, the first four propositions advanced in this chapter establish the logic of elite agency (i.e., 'what elites do'). These propositions are on: the elite dominance iron law (Proposition 1); the multi-dimensional elite circulation process (Proposition 2); how the mode of elite circulation affects development (Proposition 3); and on the coordination capacity of elites from a transaction cost perspective (Proposition 4).

1.3.1 Proposition 1: The elite dominance iron law is structural to society

> The majority is thus permanently incapable of self-government. [. . .] the majority of human beings, in a condition of eternal tutelage, are predestined by tragic necessity to submit to the dominion of a small minority, and must be content to constitute the pedestal of an oligarchy. (Michels, 1962/1999, p. 334)

The three Italian classical elite theorists (first Michels, then Mosca and Pareto) coincide in their agreement that there is an "iron law" of oligarchy, an idea that is not exempt from controversy on account of its elitism and "anti-democratic" nature (Nye, 1977), a criticism associated with the elite populist fallacy ('elites are bad'). The elite theory of power is steadfast that a minority—whether termed as an elite, dominant coalition, oligarchy, establishment, aristocracy, plutocracy, special interest group, ruling class, or hegemonic group—sits atop all societies. The controlling ruling elite of Mosca (1939) is made up of those who, according to Pareto (1968/1991), have superior qualities. Michels (1962/1999) expounds on the qualitative divisions between leaders and followers and his "assumptions concerning the 'incompetence of the masses' corresponded greatly with those of Lenin" (Lipset, 1999, p. 33). The Italian elitist perspective claims to constitute a "realistic" elite theory that is, however, non-Marxist (Blondel & Müller-Rommel, 2007, p. 3), even when referenced by Marxist elite sociologists such as Bottomore (1993). Other thinkers, including Olson (1965/1971, 1982) or North, Wallis and Weingast (2006) arrive at conclusions similar to the Italians, albeit via different analytical paths.

What about revolutions from below? Should a movement of the masses come to power, Mosca argued that the emerging narrow coalitions would quickly become new elites, a notion that essentially conforms to the precepts of the elite dominance iron law. The waning or wholesale replacement of an elite does not result in non-elite dominance, but rather, the rise of a new elite:

> Even when the discontent of the masses culminates in a successful attempt to deprive the bourgeoisie of power, this is after all, so Mosca contends, effected only in appearance; always and necessarily there springs from the masses a new organized minority which raises itself to the rank of a governing class. (Michels, 1962/1999, p. 334)

This expression of the iron law can be emphasized through the following example, set out by Milovan Djilas, the Yugoslav former deputy to Tito:

> the Communist revolution, conducted in the name of doing away with classes, has resulted in the most complete authority of any single new class. Everything else is sham and an illusion. (Djilas, 1957, p. 36, as cited in Lipset, 1999, p. 33)

Based on the claim that the masses are not qualified to rule and that elites have superior qualities, Mosca (1939) developed a normative position that advocated for elite rule (Blondel & Müller-Rommel, 2007, p. 5). While the iron law is accepted in this work, this parallel classical elitist idea that elites have superior qualities must obviously be questioned. Any elite theory of economic development cannot assume that the superior qualities of elites are, as Pareto claimed: "the strongest, the most energetic, and the most capable—for good as well as evil" (1968/1991, p. 32). The casual observer can see that in many societies, while many brilliant individuals occupy the top echelons, so will their less capable descendants, the lucky, the brutish, or the well-connected but inept. The essential problem for development is that extractive elite business models can endure over time despite their inability to create value because elite power maintains extractive institutions. Interestingly, Pareto realized the necessity of value creation at the apex: "It is particularly important that an elite predominantly composed of consolidators admit intelligent innovators in its stratum. Failure to pursue this policy leads to difficulties, even revolutions" (Zetterberg, 1991, p. 10). Only in a frictionless, highly competitive, and idealized political economy would extractive activities fall by the wayside and elites be superior due to the higher value creation of their business models. Superior or not, elite dominance is the definitive constant in societies.

1.3.2 Proposition 2: Elite circulation is multi-dimensional and characterizes society

Occupancy at the top is subject to change, and Pareto's theory of the circulation of elites (1968/1991, p. 36) stresses that "the history of man is the history of the continuous replacement of certain elites: as one ascends, another declines". According to Zetterberg, this idea "both resembles and modifies Marx' dictum of history" (1991, p. 16). The notion of elite circulation is distinguished from elite replacement: both see elite business model transitions, but the former preserves the elite system to a degree that the latter does not. Elite circulation is conceptually tightened here by examining its various dimensions, which include: its progressive or regressive qualities; its drivers; its speed; the startling role played by narrative markets; the varying degrees of elite replacement; and its uncertain substance.

The process of elite circulation and replacement has frequently been construed in the literature as being progressive. In Marxism, where elites are representatives of the dominant class, their replacement is related to changes in the economic system's mode of production. So, in 19th century European states, the bourgeoise replaced the nobility and critically introduced business models that monetized the technologies of the industrial age. Technological shifts and innovation have been theorized as a cause for economic cycles, see medium-run (7–11 year) fixed-investment Juglar (1862) waves, and long-run (45–60 year) technological Kondratieff (1925/1935) waves. Schumpeter (1939) incorporated the Juglar and Kondratieff waves into his theory of business cycles and research has since shown that upswings, rather than recessions, usher forth creative destruction by entrepreneurs (Legrand & Hagemann, 2017, p. 253). The ETED conceives of such emerging elites as surfers, catching and riding technological waves to their full potential. Elite circulation or replacement under this premise is progressive and creates value.

'Progressive elite circulation' is discernible and understood. Specific instances include the automotive industry replacing the horse and buggy industry; Amazon's e-commerce and WeChat's social commerce models superseding traditional offline retail; and the Russian post-1990 oligarchs operating assets at higher efficiencies than their Soviet predecessors. Under progressive elite circulation, emerging elites rise to the top on the back of innovative, higher value creation elite business models. Yet the relationship between elite circulation and increasing value creation is anything but universal. At times, elites might even be replaced while the old elite business models linger on. This was the case for imperial Chinese dynasties adopting the extractive taxation agriculture model of their predecessors, a 2,600 year-old model only discontinued in 2006.[9] It gets worse when emerging elites turn out to be more extractive than their predecessors. The Yuan replacing the Southern Song Dynasty after the naval battle of Yashan in 1279 pro-

9 China's elite business model of taxing farmers (imperial grain and state taxes, *huangliang guoshui*) is probably the longest in the human historical record (594 BC – 2006). The origins of agricultural tax are attributed to a reform in the pre-imperial state of Lu, *chu shui mu* (i.e., land is taxed for the first time based on acreage) which is recounted in the *Xuan Gong Shi Wu Nian* section of the *Zuo Zhuan*. The Xinhua News Agency stated on December 30, 2005 that: "China's 2,600-year-old agricultural tax

vides an example of 'regressive elite circulation', since the racist four-class system of the Mongols was particularly extractive towards the Chinese Han and Southerners, especially during the early stages of their rule. Other examples of regressive elite circulation readily come to mind in contemporary regime changes in Libya, Venezuela, or Afghanistan. A concrete and painfully regressive business model replacement occurred in Medellín when Pablo Escobar's organization and peers supplanted "the textile sector (elites) flourishing before the appearance of the drug industry", blighting "the strong entrepreneurship mentality that characterizes Colombia's second city" (Naef, 2018, p. 12).[10]

Elite circulation occurs in specific areas of the political economy and within unique contexts through intra-elite contests, usually between established and emerging elites, but also sometimes between rival incumbents. Incumbent replacement might be self-inflicted through incompetence, excessive and unsustainable rent seeking, or ineffective elite coalition cohesion. Christensen (1997) suggests that established organizations are comparatively less adept at innovation and catching the waves of disruptive technologies. Henry Ford realized the possibilities of the assembly line in 1913, earlier than his older American, German, or French competitors, while Tesla seized the climate change narrative far sooner than the now aged Ford Motor Company. Emerging elites must be innovative as they seek ways to neutralize the formidable incumbency advantage, for instance, by offering better visions for how the future ought to unfold or by delivering greater value to customers. At times, rather than facing incumbents head on, it might be more effective to lay low, consolidate power in peripheral arenas and then, at the opportune moment, strike. The 1980 licensing contract between IBM and Microsoft for the operating system of personal computers, the importance of which was famously missed by IBM's top brass, launched one of history's most progressive elite circulations. Still, in the majority of cases incumbent power prevails: YouTube, Instagram, and ChatGPT all had the potential to spur elite circulation or even replacement but were instead incorporated into existing models (respectively by Google in 2006, Facebook in 2012, and Microsoft in 2023).

Elite circulation processes, if successful, always beg the same question: will the winning elites create more value than the incumbents they supersede? Even innovation can

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will be rescinded as of Jan. 1, 2006, after China's top legislature voted on Thursday to adopt a motion on the regulations revoking the agricultural tax. [. . .] Wan Baorui, former vice minister of agriculture and vice chairman of the Agriculture and Rural Affairs Committee of National People's Congress told Xinhua that the abolition of the agricultural tax demonstrates that [China] ushers into a new era of 'industry subsidizing agriculture'. [. . .] During the more than 2,000 years, agricultural tax was always the main source of the country's coffer". Anecdotical conversations with Chinese farmers 15 years after the reform reveal a deep awareness and gratitude to the People's Republic of China (PRC) then leaders President Hu Jintao and Premier Wen Jiabao for the momentous decision to reverse the direction of value transfers between government and agriculture that had spanned across three millennia.

10 Baumol's framework in "Entrepreneurship: Productive, Unproductive, and Destructive" (1990) provides insight on why individuals such as Escobar (and Julius Caesar, see Section 7.3.2)—entrepreneurs of the unproductive and destructive type—are a feature of certain societies.

be hypothetically regressive if it is associated with value transfers in the service of extractive elite business models. Elite circulation in Medellín was regressive in this way and started with the dollar inflows to drug cartels from instigating the explosion in demand for cocaine in the US (Lee, 1988), a notionally innovative consumer product that enjoyed both the witting and unwitting support of American knowledge elites driving the groundbreaking cultural transformations of the time. On the other hand, the emergence of new technologies and ideas in society are opportunities for progressive elite circulation.

Besides innovation, circulation and replacement might also be driven by other exogenous events such as pandemics. While the bubonic plague of 1350 weakened the English feudal system (as labor became more valuable), neither elite circulation nor replacement materialized (the Peasant Revolts were eventually defeated). On the other hand, typhoid ended the siege of Athens in 430 BC and led to Sparta's victory in the Peloponnesian War which saw the winning elite wielding comparatively more extractive business models. In the case of elite circulation, and regardless of whether its origin is caused by bacteria (see Dartnell, 2023) or technological disruption, any factor outside of the elite system will have endogenized when kick-starting the process—external events become intrinsic to the political economy and can only materialize through intra-elite contests in the elite system. In the 1990s, France was ahead of every other country in e-commerce through France Telecom's Minitel service,[11] a lead that was squandered due to a lack of intra-elite contests and circulation. The way that the French establishment endogenized the breakthrough technology, e.g., through inadequate telecommunication regulation reforms, meant that the related value creation potential was realized by elite business models based in the US and China.

The replacement of sectoral elites as well as a nation's core elite coalition occurs through the combined wins of emerging elite coalitions in the market, non-market, and narrative market arenas. Narratives merit special attention and are as germane to Tesla as they were in Paris in 1789. In 1788, drought and the ensuing harvest failure drove the French revolutionary narrative synthesized in the tripartite motto *liberté, égalité, fraternité*. The old narrative of the *Ancien Régime* did not withstand this revolutionary challenge in the non-market political contest arena. This was due in great part to the incumbent elite system failing to address concerns arising from the royal business model such as a regressive tax system and increased inequality.

When narrative markets trade in new ideas, beliefs, and ideologies, they can become a natural starting point for discontinuous elite replacement processes. Emergent coalitions might introduce new narratives, sometimes as localized foreign transplants, that become overwhelming challengers to the status quo in their domestic political economy arenas. The achievements of such coalitions can be astonishing, as the might

11 The Organization for Economic Co-operation and Development (OECD) calculated that: "In 1994, 1.2 million [French] households used the Minitel to buy a product, whereas in the same year, only 800 000 US households used the Internet to carry out at least one commercial transaction" (1999, p. 116).

of an emergent elite increases in proportion to the virality of its narrative. In July 1921, the Communist Party of China (CPC) was founded by just 13 delegates in Shanghai; less than three decades later, in 1949, the new narrative had enabled complete outsiders to form a powerful modern Chinese state, a yearned for yet elusive goal since the Opium Wars of the 19th century. Similarly, Ilya Repin's (1903) masterpiece, *Ceremonial Sitting of the State Council on 7 May 1901 Marking the Centenary of its Foundation*, is a premonitory portrayal of the keepers of the reactionary, paralyzing, and ineffective Romanov narrative and its closed access elite system, foreshadowing a counter-narrative that would bring about its downfall. The first such challenge, the February 1917 Bourgeoise Democratic Revolution, did not consolidate the elite replacement bid, but the Bolsheviks succeeded in the October 1917 Revolution. As a result of their handling of World War I, Tsar Nicholas II and then Alexander Kerensky lost decisive battles in the narrative market arena, followed by their respective forfeiture of the throne and the short-lived Russian Republic. Soviet Marxist-Leninist socioeconomic thought, on the other hand, was the driving force for elite replacement, a bloody process that became irreversible after the Russian Civil War victory in 1923.

The historical expansion of Islam, divinely inspired and possibly history's largest and most extensive elite circulation process, occurred in territories as diverse as the Levant, Mesopotamia, North Africa, Iberia, Transoxania, Sindh, Bactria, and the Caucasus. It rested on revamped elite business models like "an increased money supply" (Shatzmiller, 2013, p. 305), while its nature was more nuanced than the Bolshevik revolution and included varying degrees of elite replacement. In one instance, "non-Muslim indigenous élites levied taxes for a small Muslim/Arab ruling class claiming the exclusive right of sovereignty", but their "star began to decline at the tail-end of that century, particularly as Arabisation and Islamicisation took hold" (Robinson, 2000, p. 90). That is, the tax farming business model of the emergent elites required the collaboration of the old elites, but only temporally. In another instance, after the final collapse of the Neo-Persian Empire's exhausted Sassanid Dynasty in 651, many members of the upper classes managed to conserve their elite status by converting to Islam. In doing so, the old elite not only avoided paying the poll tax to the Arabs, but also even received the state stipends allocated to aristocrats (Morony, 1976, p. 54).[12] Muslim conquest related elite business model replacement could, however, also be revolutionary and absolute, as the Hispano-Gothic aristocracy, most of whom did not convert to Islam, discovered in 711 when Tariq ibn Ziyad's North African Umayyad troops overwhelmed Iberia. As these examples show, the degree of completeness in elite replacement processes has varied widely throughout history.

This discussion has illustrated the multi-dimensional characteristics of elite circulation and replacement processes: they can be either progressive or regressive in value

12 Interestingly and in domino fashion, some of the refugee Sassanid aristocrats became elites in Central Asian kingdoms and even as far as China. Narsieh, the grandson of the last Sassanian emperor, Yazdegerd III, famously rose to become the commander of Tang Emperor Gaozong's imperial guards.

creation terms; the variety of the underlying drivers impacting intra-elite contests and effecting circulation is considerable, with technology now becoming ever more central; the forces that catalyze elite circulation frequently arise in narrative markets; and the degree of completeness of the process can differ greatly. This is also the case for the speed of the process, as elite circulation may sometimes not happen at all, stop midway through, occur at a glacial pace, or come with revolutionary fervor almost overnight. This all implies deep uncertainty. Following the complex system logic of "randomness with direction" (Gleick, 1987, p. 314), once the vagaries of elite circulation see new business models arrive at the apex of the political economy, predictions about economic development can be made by examining the aggregate sustainable value creation of elite business models at the meso-level of the elite system (see Proposition 17).

Normatively speaking, elite circulation and replacement driven by technological advances and innovation is progressive and desirable from a developmental perspective on the assumption that the outcome is value creation. For instance, digitalization and the rise of the electric vehicle are associated *a priori* with enormous new value creation. A connected question here is the role of the circulation process and whether (and to what extent) both the leading incumbents and emerging contestants realize the value creation opportunities afforded by waves of technological disruption. Will the top global automotive firms of Germany, the US, and Japan be replaced by the likes of Tesla, Rivian, and Lucid Motors or by Chinese challengers such as BYD Auto, NIO, and XPeng Motors? The newcomers' ultimate market share matters less than whether the size of the pie grows overall. To the ETED, the elite circulation dimensions that characterize society are relevant in terms of their association to value creation.

1.3.3 Proposition 3: The mode of elite circulation affects economic development

Proposition 3 proposes a framework for how elite circulation affects economic development based on two elite system properties: social order access (see North, Wallis and Weingast, 2006); and aggregate value creation, i.e., elite quality (the measurement of which is described in Chapter 6). These two properties reflect many of the dimensions of the circulation process expounded on in Proposition 2 and result in four modes, each associated with differing growth trajectories. These are depicted in The Elite Circulation Matrix (Figure 1.1).

Elite circulation modes have been a topic of discussion in the literature. Pareto identified slow infiltration replacement processes (Michels, 1962/1999, p. 167) alongside more sudden and violent revolutionary changes (Pareto, 1968/1991). Michels articulated an intermediate elite circulation mode characterized by admixture:

> Pareto's *théorie de la circulation des élites* must, however, be accepted with considerable reserve, for in most cases there is not a simple replacement of one group of *élites* by another, but a continuous process of intermixture, the old elements incessantly attracting, absorbing, and assimilating the new. (Michels, 1962/1999, p. 326)

Elite preservation strategies are often put in place to either preempt or weaken elite circulation and are then reflected in the mode that this process takes. Busino (2000, p. 225) articulates Pareto's sociology in this regard: "there are two ways of maintaining stability and social continuity: eliminating those who contest and therefore jeopardize the social order and the existence of the élite, and/or absorbing the elements of the governed class who may be useful or usable." Pareto and Michels reflected on the elite system's openness, and while they did not formalize a typology of elite circulation modes, Figure 1.1 incorporates their concerns by conceptualizing elite circulation in terms of social order access and elite quality. These two factors associated to elite circulation are deemed to have the most wide-ranging impact on economic and human development outcomes.

Elite circulation is short-circuited by revolutions and by wars when these are not intra-elite contests *per se*. The result in such cases is discontinuous replacements that degrade or destroy the incumbent elite system along with its knowledge, networks, and coordination capacity. Elite replacements, such as 'liberation' processes, that are mostly exogenous to the incumbent elite system do not constitute circulation (the analysis of revolutionary tipping points and the violent replacement of elites is deferred until Proposition 19 considers the options available to non-elites). Endogenous elite circulation processes can, however, also be beset by intra-elite violence. No greater calamity can befall a society than deinstitutionalized intra-elite conflict, a situation much more frequent than revolutions, and equally destructive. Once the fog of narratives (often designed to enlist non-elite groups) clears, it becomes evident that the cause of most of the suffering throughout history is intra-elite conflict resulting from elite system failure (i.e., the breakdown of the elite separation of powers and elite cohesion, see Figure 5.2). From this perspective, wars are deinstitutionalized cross-border intra-elite contests for division of value, many of which have their origins in domestic intra-elite rivalry. Elite replacements do occur as a result of the vagaries of war, but such transitions do not constitute an elite circulation mode within the social order. Nations revert to discrete endogenous elite circulation modes after exogenous shocks with clear pre- and post-war/pre- and post-revolution social orders. These orders are characterized by institutionalized intra-elite conflicts that do not compromise the existing knowledge, networks, and coordination capacity of elites. The Elite Circulation Matrix concerns itself with circulation modes that occur endogenously, within the reigning social order.

The four modes of elite circulation in the political economy are: 'admixture' (quadrant 1), which refers to the active integration of new value creation elites into the system and is reflected by vigorous social mobility; 'blockage' (quadrant 3), when elite circulation grinds to a halt leading to developmental regression; 'infiltration' (quadrant 2); and 'endosmosis' (quadrant 4), both of which denote unsatisfactory and stunted forms of elite circulation. In the ETED, admixture, which has been a hallmark of the US system for over two centuries, is associated with sustainable development, while infiltration and endosmosis result in haphazard, temporary,

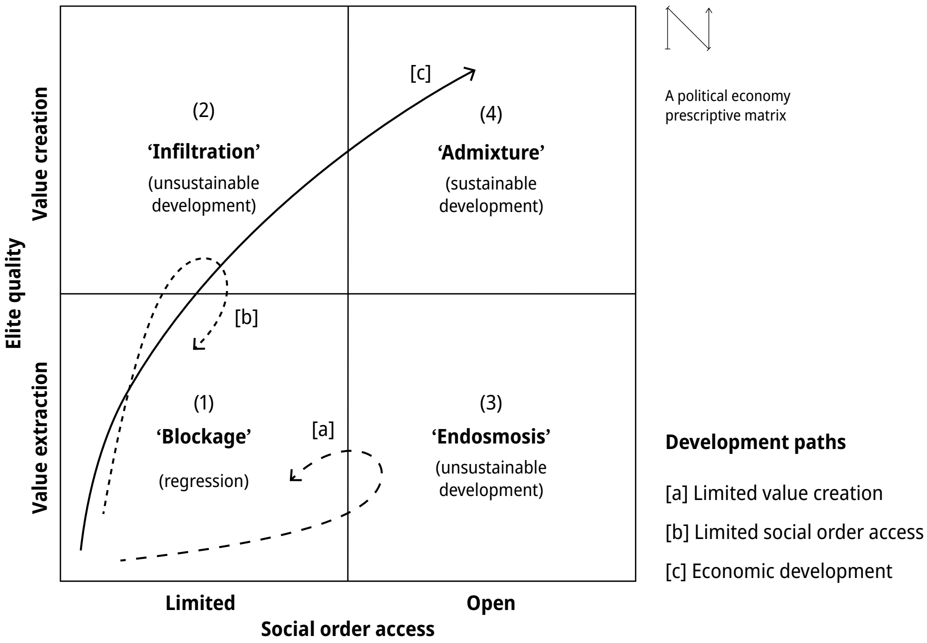

Figure 1.1: The Elite Circulation Matrix.[13]

unsustainable growth that soon loses steam. With infiltration, new value creation elite business models force their way into the elite but in insufficient numbers to transform the existing dominant models, thus remaining marginal forces in the elite system. With endosmosis, those who enter the elite system do so with extractive business models.

Each of the four modes is examined in some detail, starting with endosmosis (quadrant 4). The metaphor is based on the inward diffusion of water stopping when the concentration is the same inside and outside the membrane. Applied to The Elite Circulation Matrix, outsiders enter the system on the premise of higher value extraction. That is, the system is open to competitive and innovative outsider business models based on extractive value transfers and rents. Emergent rent seekers, or criminal organizations, can be assumed to simply be more efficient or ruthless than the incumbents they join or replace.[14] Since the elite system does not gain value creation capac-

13 Based in part on the social order access notion of North, Wallis, and Weingast, 2006.

14 The intra-elite contest dynamic in this mode of circulation is institutionalized, and even its violence follows recognizable patterns. For example, it has been noted that "the effects of mafias on the relationship between political power and the social order" result in situations where the "actors in power, legal and illegal, maintain agreements on the modes of social regulation" while at the same time incumbent elites (e.g., those controlling the state apparatus) and emerging ones (e.g., drug traffickers) appear at odds with each other (Duncan, 2014, pp. 18, 19).

ity when the extractive incumbents traverse the membrane, the economic vitality contributed by the new entrants is haphazard and unsustainable. For instance, opening the social order to democratization processes (see Section 8.1.4) often brings hopes of growth, but if such changes are not associated with higher elite quality levels the developmental trajectory (see path [a] in Figure 1.1) will end in a cul-de-sac.

In the infiltration mode of elite circulation (quadrant 2), the limited social order access similarly results in only temporary development. Newcomers with value creation business models are only exceptionally able to join the ranks of the elite and so lack the critical mass to meaningfully agglomerate and affect elite quality levels in the system. Moreover, emergent elites who *contra-natura* push through rare openings in the barriers that keep social divisions in place (e.g., thanks to exceptional creative energy and wealth accumulation powers) will regress their business models and become extractive. Once inside the system, the new elites essentially become undistinguishable from the old in terms of value creation. The reason behind such unsustainable development (see path [b] in Figure 1.1) is simple: it is cost-effective for elite coalitions admitted into the system to leverage their newly-found embeddedness to mimic insider rent-seeking behavior, soon losing any incentive to invest in value creation. For development to occur, there is a need for a critical agglomeration of newcomer value creation elites (see Section 4.3.5) with the power and desire to affect institutional change.

A particularly dismal scenario for human and economic development, one characteristic of most pre-modern social orders, is blockage (quadrant 3): extractive low elite quality systems with limited social access are hopelessly mired in regression with virtually no elite circulation. The large amounts of value creation needed to keep modern societies dynamic requires an ever-higher degree of openness and elite quality, with rapid elite circulation in the admixture mode (quadrant 1) for sustainable economic and social development. Admixture allows newcomers with value creation business models to quickly ascend within the system, a combination that results in the robust business model transformation of the economy and society (see path [c] in Figure 1.1).[15] An optimum speed for a type of admixture that maximizes aggregate value creation and economic development might exist. The ETED, however, suggests a simpler 'minimum elite circulation velocity' conjecture that relates the speed of elite circulation within the national elite system to the rate of development (the higher the velocity, the more development), conditioned by the emergence of new technologies (that elite business models then absorb and adopt).

15 For example, in 19th century Russia or Spain, emerging elites might include industrialists or talented state officials who, once established, ran business models based on proximity to the court and its related privileges. In contrast to the infiltration of St. Petersburg or Madrid, England and parts of Germany saw admixture. The admixture mode of elite circulation has a bidirectional absorptive quality across the old and the new. In England, a section of the established aristocracy committed their resources and coordination capacity to industrialization or its finance, while today, established Wall Street firms are heavily invested in Silicon Valley.

The minimum elite circulation velocity would also have to take into consideration Knight's supply of uncertainty-undertaking self-confident individuals: "the rashness or timidity of entrepreneurs (actual and potential)" that place business bets (1921/2002, p. 283) in order to have a chance of rising to elite status. The aggregate agency of those that are willing to respond to value creation incentives and expose themselves to risk by undertaking uncertainty is a significant determinant of economic outcomes. While the primary concerns of the ETED might appear to be at the meso- and macro-level aggregates (e.g., elite quality, economic growth), the single individual—the leader at the helm of a start-up, an established firm, a state-owned enterprise, or government project—matters greatly to economic development. Can the single individual's agency in Carlyle's (1840/2008) Great Man Theory of history (or leadership) have a parallel with and be of relevance to economic development in the context of elite circulation? A 'hero orthodoxy' already exists in the development literature and stresses the roles of "individual leaders" (Jones & Olken, 2005, p. 835), of "influential high-level leaders", as well as "of leadership in change processes" (Andrews, 2013, pp. 2, 5), and even of unsavory "economically benevolent dictators" (Gilson & Milhaupt, 2011). These "stories", when tested, however, "have not held up well in the contemporary empirical growth literature" (Easterly, 2011, p. 1, also see Easterly & Pennings, 2020). The edited work, *Leadership and Growth*, by the Commission on Growth and Development at the World Bank emphasizes this and provides some nuance:

> There is no one style of leadership that covers all the high-growth economies. Nor is leadership the only input. At best one can venture that effective leadership involves seizing opportunities created by the political-economy dynamics to institute change in strategy, structure, and direction. (Brady & Spence, 2010, p. 4)

To the ETED, change and transformational leadership in all of its forms is the critical input (see the typology of elite leadership types in Table 7.2) and substantiates 'the great elite coalition for development' conjecture. Members of an enlightened elite coalition have a decisive impact on development outcomes—through both macro-level structural reforms and new or revamped micro-level business models—when they support sustainable value creation. This is a notion and ethical position that is further developed in the final chapters of this work. Any elite system running business models that increase value creation is, to quote Carlyle, "great", even when elite agency is narrowly focused on specific domains or sectors. This is what makes the mode and velocity of elite circulation (Figure 1.1) so important: when admixture occurs at an optimal pace there is a far greater likelihood of 'great' elite agency, both in incumbent and emerging elite coalitions.

This section on the modes of elite circulation and their associated economic development outcomes closes with an example of admixture that epitomizes both elite circulation and the decisive impact of 'great' individual leadership in the elite coalition. America would be a noticeably different economy absent the imagination and amazingly innovative value creation agency of Steve Jobs. Without admixture, incumbents such as IBM, Sony, or Motorola might be in rather better shape than is currently the case, yet without the powerful elite coalition that brought the Mac, iPhone, and App-Store ecosystem into existence, the global economy's production function would be considerably diminished.

1.3.4 Proposition 4: Elites in the abstract are coordination capacity enabled by low transaction costs

The elite dominance iron law is, as discussed earlier, a rebuke of the elite denial fallacy ('elites don't exist'). Elites are a mathematical certainty, but by what logic? Michels' theory of the organization put the emphasis on the efficiency of hierarchies and massive organizations that "give their officers a near monopoly of power" (Lipset, 1999, p. 17). Bejan's idea of economies of scale links the social and physical world around the idea of hierarchies with few at the top:

> Economies of scale is the common observation that [sic] is easier and more efficient to move a unit of something along with other units (in bulk) than to move it alone. All flow systems (with power, movement, and freedom to morph) tend to unite and organize for this reason. In every such system, the resulting organization is a hierarchy of few large and many small, which is the antithesis to the one-size design with identical movers, and without organization. (Bejan, 2020, p. 13)

Hierarchy is omnipresent in natural and social systems and is realized in the political economy through the organizing force of the elite system. What theoretical perspectives best explain elite dominance? To the transaction cost perspective, the transaction is "the basic unit of analysis" for the economic system (Commons, 1924; Williamson, 1981, pp. 548, 549). Williamson further explains that "transaction cost economics is the means by which to breathe operational content into governance and organization" emphasizing "contractual relations from a transaction cost economizing perspective" (2010, pp. 673, 687). Olson's (1965/1971, 1982) collective action logic rests on an economic rationale consistent with the transaction cost advantages at the origin of elite dominance. The efficiency imperative, which requires hierarchy and organization, gives Olsonian small groups with concentrated interests a collective action advantage over distributed and larger groups, improving their chances of gaining positions at the top of hierarchies. The lower transaction costs of cohesive coalitions with a narrow membership underlie Olson's logic of collective action and theory of groups.

In addition to size, the transaction cost advantages of elite coalitions also rest on network effects and trust. Social networks are a powerful conceptual element, "a tool for linking micro and macro levels of sociological theory" (Granovetter, 1973, p. 1360), and a key component of the social structure impacting economic outcomes (Granovetter, 2005, p. 33). Elite networks are more effective because they are posited to possess higher levels of trust than non-elite networks. Trust is social capital (Fukuyama, 1995) and a valuable product of social elite networks (Morck & Yeung, 2004). As a manifestation of the relational dimension of social interaction, trust is germane to the success of any human endeavor; for instance, at the intrafirm level, it can bring about product innovation gains (Tsai & Ghoshal, 1998). Even "impersonal elite exchange" (North, Wallis, & Weingast, 2006, pp. 63–64) will be more scalable and efficient than impersonal exchange between non-elites. In short, small groups with lower transaction costs and higher levels of trust move to the central positions of social networks and to the top of hierarchies, making elites the largest repositories of coordination capacity—and power—in society.[16] The enormity of contemporary elite coordination capacity, i.e., applied power, is astounding, and exemplified by Apple's 2.4 million US job footprint, China's railway system managing more than 4 billion passenger trips per year, or the 2.5 billion monthly active users on YouTube.[17]

Elites in the abstract are but a manifestation of coordination capacity. This power, one which any social system affords to its apex (as per Proposition 1), seems disproportional to the coordination capacity of non-elites, especially when it manifests itself in terms of income disparities. While one may easily apprehend that elites have certain transaction cost advantages (by virtue of being in a small coalition benefiting from network effects and high levels of trust), it is incomprehensible that these are magnified out of all proportion in terms of power and coordination capacity differentials. A key facet of political economy systems is that even if elites enjoy only a small transaction cost advantage over non-elite stakeholders, this gap widens exponentially as transactions and time pass by. There is therefore an evident leverage effect associated with hierarchies and power. This lever technically works like credit creation in fractional reserve banking or the mechanics of economic multipliers (Lange, 1943). The functioning of 'the power multiplier' is conceptually akin to the

16 "We have proposed a system for electronic transactions without relying on trust" (Nakamoto, 2008, p. 8). This first sentence of the conclusion in the foundational Bitcoin white paper suggests a future where trust might no longer be needed and is replaced with "cryptographic proof instead of trust" (Nakamoto, 2008, p. 1). If the trust advantage of elites shrinks, the comparative bargaining power advantage and role of elites in the economy will correspondingly diminish. A testable hypothesis for the obsolescence of trust in cryptocurrency business models is whether their elites (e.g., founders, miners, the producers of $BTC blocks, exchanges) are less powerful and decentralized (and less rich) in their domains than elites in established sectors such as traditional finance. Knowing what percentage of wallets own how much Bitcoin would address the question of the distribution power (i.e., applied coordination capacity) which emanates from the trust and networks of small groups: if 2% of "whales" own 95% of Bitcoin (as claimed by Kharif, 2020b), Nakamoto's ideal is nowhere near to realization. This is precisely why Bitcoin seems to be holding its value when other digital assets are not, as trust is a key feature of any successful blockchain project. The trust existing among members of the narrow elite coalition is the reason why stakeholders trust that coalition's elite business model with their resources and assets. Hence, another test about whether cryptographic proof or another model has really replaced trust is what happens when outsiders cannot trust that elite coalition members trust each other, as was the case with Luna or FTX.

17 See: https://www.apple.com/newsroom/2019/08/apples-us-job-footprint-grows-to-two-point-four-million/; https://www.globaltimes.cn/page/202412/1324320.shtml; https://backlinko.com/youtube-users.

"force multiplier" of military affairs with its generation of "fighting power" which in turn is the result of factors like "doctrine" (Sloan, 2012) or even religion (Hassner, 2016). A precise description of 'the power multiplier' can be found in *A Book of Five Rings*, the Japanese classic on strategy, *kenjustsu*, and philosophy, where Miyamoto Musashi (1645/1974, pp. 46–47) writes:

> If he attains the virtue of the long sword, one man can beat ten men. Just as one man can beat ten, so a hundred men can beat a thousand, and a thousand can beat ten thousand. In my strategy, one man is the same as ten thousand, so this strategy is the complete warrior's craft.

A multiplier of 10,000 might appear modest compared to the ratios implicit in the levers of Steve Jobs with his products, the Apostle Paul with his epistles, or Vladimir Putin with his security apparatus. When the multiplier effect generates power that is completely out of proportion with the differentials normal in regular social relationships, the elite coalition is said to wield 'the extraordinary lever' in its sector of the political economy (see the visualization in Figure A5.3a). That is, modest transaction cost advantages in bilateral principal-stakeholder relationships magnify across the length of the value chain, creating enormous power differentials that are perfect for value appropriation for those at the top. Once accumulated, this power (a topic that is the exclusive focus of Section 4.3), becomes applied coordination capacity and a key for human development. When applied inclusively, it explains, for instance, why a maverick entrepreneur builds reusable rockets that the space agency of the national state with the largest economy will not. Power, the applied coordination capacity afforded by 'the extraordinary lever', can likewise be extractive, as is evident when a monopolist raises prices in a narrow market segment that it dominates or a president unilaterally decides to invade a neighbor, initiating a war that most of its elites and non-elites did not want or expect. The differences between inclusive and extractive elite coalitions can be traced back to the characteristics of the elite system including the comprehensiveness of the elite separation of powers, a matter amply discussed later in this work (see Figure 3.7 and Table 3.2).

Elites are master coordinators, but how do they accumulate power? Through wins in the three contest arenas of the political economy: the political non-market (where elites gain an institutionally sanctioned license to operate); the economy's market (where elites gain residual income); and society's narrative market (where elites gain sway over hearts and minds and thus the legitimacy for their license to operate). 'Elite coordination leadership' facilitates wins in the economy's market arena that result in 'money' (i.e., power in the economy); wins in the political non-market arena that result in 'might' (i.e., power in politics); and wins in society's narrative market arena that result in 'mind' (i.e., power in society). Effective elite coordination leadership wins in these three contested arenas provides elite agency with its first objective: the accumulation of power (see Figure 1.2). Power accumulation secures 'the extraordinary lever', the effectiveness of which is boosted across the value

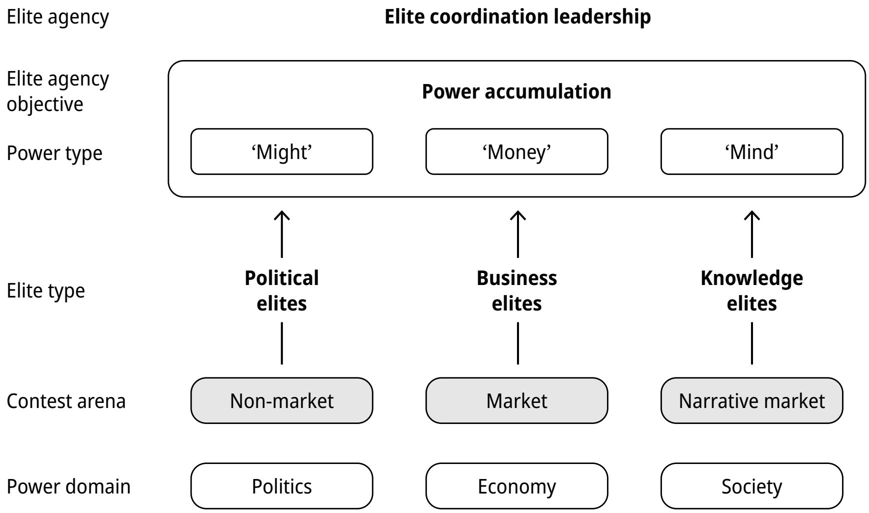

Figure 1.2: Elite coordination leadership: Power accumulation in the three political economy contest arenas.

chain (*de facto* structured as a hierarchy) of cascading principal-stakeholder relationships.[18] Power must be an essential component of the elite theory paradigm and is later examined in theoretical detail and duly incorporated into the ETED architecture (see Sections 4.4 and 4.5), as is the process that further converts this power into residual income (see Figure 4.4).

Beyond the theoretical, one might ask what does the concrete practice of elite coordination leadership entail? In the *The Art of the Deal* (1987, 1:39), Donald Trump stresses the importance of his 50–100 calls and a dozen meetings per day. The biggest shareholder of the world's foremost commodities trader, Ivan Glasenberg, paradigmatically has a talent for power accumulation—characteristic of leaders since time immemorial—as is vividly captured by *The Financial Times*:

> Rivals and colleagues say he is constantly on the phone, gathering intelligence or cementing relationships, and supposedly always ready to jump on the plane and smooth a deal, whether by visiting a chief executive or head of state. (Blas, 2011)

18 Leaving constraining institutions aside and *ceteris paribus*, the more complex and technologically sophisticated a business model is, the greater the hierarchical relationship with its stakeholders. Hence, business models based on data have more leverage over their stakeholders than predecessor models based on the factors of production such as land, labor and capital. The rapid advance of artificial intelligence ups the ante even further in this regard. Generally speaking, elite coordination leadership will always strive to minimize friction across the hierarchical levels (the power transmission mechanism is made up of local small levers between one level and the next) so that 'the power multiplier' (again, applied coordination capacity) is not lost. Data reduces friction and transaction costs and so preserves 'the extraordinary lever', a specific aim of elites that is also achieved through enabling institutions.

In a zero transaction cost world, accumulated (bargaining) power would be irrelevant (North, 1990, p. 16), as would the insights of standard economics (Williamson, 2010, p. 687). Moreover there would be no fulcrum for 'the extraordinary lever'. By applying the Coase theorem (Coase, 1960; Medema, 1994), government would also be superfluous and, as Marciano (2011, p. 4) recounts, "in the absence of transaction costs, externalities are internalized, that is private and social costs coincide and, in addition, legal rules do not matter" for the purpose of resource allocation. Crucially for the ETED, in a world with no transaction costs, elites would also be irrelevant and unnecessary, since elite coordination capacity or high levels of trust would offer no advantage in political economy contests. However, in the absence of such a brave new world (that still may emerge with the singularity),[19] low transaction costs and trust-producing networks facilitate wins by elites in the contest arenas of the political economy. Transaction cost economics supports "positive political economy" analysis because it recognizes a relationship, one that will later be critical in this work, between regulatory institutions and the "goals of political agents" (Weingast & Marshall, 1988, as cited in Joskow, 1995, p. 256). In the market, non-market, and narrative market arenas, the transaction cost reduction roles of elites facilitate the formation and maintenance of elite business models and explain 'the power multiplier'. The role of elites in reducing transaction-cost mechanisms matter to development because of their magnitude: North (1984, p. 7) estimated these costs to be "as much as 50 percent of GNP" and hence they "have determined the output of political/economic systems throughout history".

19 In a world where only knowledge matters and transaction costs are the result of knowledge asymmetries, the advent of a superintelligence or AGI where the "the marginal cost of intelligence" becomes insignificant (Hoffman, 2022) might, all else being equal, turn off 'the power multiplier' altogether, meaning that elite agency would cease to work as described in this work (see the various hypotheses on the possible effects of AI on the political economy in Table A4.6).

Summary of Chapter 1

Towards a logic of elite agency

Chapter 1 launches the inquiry towards an elite theory of economic development (ETED) with four propositions on elite agency ('what elites do'). To prepare the conceptual terrain for these propositions, Section 1.1 embarks on a discussion of two elite fallacies—the elite denial fallacy ('elites don't exist') and the elite populist fallacy ('elites are bad'). In Section 1.2, a multidisciplinary elite literature review eventually leads to a working definition of elites (1.2.4) that is grounded in an examination of grand socio-political conceptualizations of elites (1.2.1), contemporary conceptualizations of elites (1.2.2), and conceptualizations of elites relevant to economics (1.2.3), all of which is summarized in Table A1.1 and organized by analysis level (micro to macro) and perspective (particularism to universalism) in the classification framework of Figure A5.2. A third elite fallacy that is derived from the first two—the non-elite rule fallacy ('people power')—is also introduced.

Section 1.3 covers four initial propositions on the logic of elite agency. Proposition 1, 'The elite dominance iron law is structural to society' (1.3.1), is controversial, but here is deemed to be undeniable and self-explanatory, with its roots in sociological traditions. Proposition 2, 'Elite circulation is multi-dimensional and characterizes society' (1.3.2), clarifies some of the characteristics of elite replacement processes such as their progressive or regressive qualities or the role played by narrative markets. Proposition 3, 'The mode of elite circulation affects economic development' (1.3.3), stresses two properties of the elite system that associate with elite circulation and affect developmental outcomes: social order access and elite quality, i.e., the aggregate sustainable value creation of elite business models. A suggested framework, The Elite Circulation Matrix (Figure 1.1), has four discrete modes and provides an original description of a political economy while also facilitating the tracing of development trajectories. Relatedly, the 'minimum elite circulation velocity' conjecture is submitted and posits that circulation velocity should be in sync with technological cycles (the image is that of emerging and incumbent elites 'catching' and then 'surfing' Kondratieff waves).

Proposition 4 closes the chapter by integrating the first three conjectures and laying out the economic rationale underlying the iron law, 'Elites in the abstract are coordination capacity enabled by low transaction costs' (1.3.4). Low transaction costs result from Olsonian small groups organized as high-trust networks. Elite coordination leadership enables power accumulation—the necessary first objective of elite agency. As coalitions reach the top of social hierarchies, they realize the benefits of 'the power multiplier', since elite agency is inseparable from 'the extraordinary lever'. That is, elite coordination capacity becomes applied, a process that is essential to growth as it correlates with the reservoir of coordination capacity in society at large. At the root of this is the transaction cost advantage that a coalition has over stakeholders with which it has direct relationships (as depicted in Figure A5.3a). Power augments in hierarchies along each level of the value chain. The three political economy contest arenas for the accumulation of power endowments: market, non-market, and narrative market (in the respective power domains of the economy, politics, and society) are then introduced for the first time (and visualized in Figure 1.2). With this suggested foundational schema for elite agency, the inquiry moves to the elite business model and its value creation and appropriation logic.