Chapter 3
Towards a logic for the elite system

This chapter completes the development of the ETED system's architecture with nine further propositions organized into three sections, designed to describe the logic under which a national elite system operates. The first set of propositions (3.1) identifies the theoretical perspectives that inform elite agency in the elite system. The second section (3.2) offers a theoretical grounding of the meso-level elite system with its component elite coalitions. In micro-meso-macro complex structures, the meso-level refers to intermediate conceptions (such as regional knowledge clusters, inter-firm industrial organization, and national innovation systems) that are "bigger than micro, but smaller than macro" (Dopfer, Foster, & Potts, 2004, p. 268). In the ETED, the elite system is the key meso building block of the economic system at large (see Figure 3.8). Moreover, it is a transmission mechanism with measurable emergent properties (like elite quality) that connects the micro-level elite business model to aggregate macroeconomic outcomes. The chapter closes (3.3) with a discussion of intra-elite contests, the chief dynamic in the elite system that determines distributional outcomes in the political economy and, consequently, the fate of non-elites and the trajectory of human and economic development.

3.1 Propositions on the theoretical perspectives that inform elite agency

> I go still further. When *plunder* has become a way of life for a group of men living together in society, they create for themselves in the course of time a legal system that authorizes it and a moral code that glorifies it. (Bastiat, 1845/1996, p. 130)

The inquiry changes gear in this section to make explicit the three theoretical perspectives that anchor the ETED to elite agency: new institutional economics (Proposition 12), political economy analysis (Proposition 13), and narrative economics (Proposition 14). The roots planted in the propositions of this section address Bastiat's legal system and moral code and facilitate the theoretical tractability of the ETED in Part II ('Integration') and throughout this work going forward.

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3.1.1 Proposition 12: Elite agency is the principal microfoundation of institutional change

> Hence, competing institutional logics are not fixed in some structural order but are continuously and flexibly instantiated in the momentary processes by which individuals adjust to any given situation. (Smets, Jarzabkowski, Burke, & Spee, 2015, p. 937)

Olson stressed the importance of "microeconomic incentives" for macroecnomic performance (1984), while North described how institutions are society's "rules of the game" (1990, p. 3, 1991a, p. 98), essentially the constraints and transaction-cost-reducing mechanisms of the economy (1984, 1991). To the ETED, elites are the *de facto* primary transaction-cost-reduction mechanisms of the economy by virtue of employing 'the extraordinary lever' to secure institutional approval for their business models to persevere over time. Institutional change is instantiated by the principals of elite business models who seek licenses to operate and desire that the various stakeholders with whom they interact have their value appropriation behavior (and bargaining power) curtailed by rules when residual income is divided up.[35] In this work, elite agency links up with the notion of individual behavior as the microfoundation of institutions and institutional change (e.g., DiMaggio & Powell, 1991; Powell & Colyvas, 2008) in relation to its practice and behavioral variant (Giddens, 1984; Smets, Jarzabkowski, Burke, & Spee, 2015).

To further place and understand elite agency and the elite system within the context of institutions we draw on Williamson's (2000, pp. 596-597) four levels of social analysis. These are: level 1, "embeddedness" (informal norms); level 2, "institutional environment" (formal rules); level 3, "governance" (playing the game); and level 4, "resource allocation" (prices and quantities). New institutional economics focuses on levels 2 and 3 of this analysis, the space where elite agency also operates. It should be noted that Seo and Creed's solution to the "paradox of embedded agency" (see Section 4.2.3) is facilitated by conceptualizing the "larger whole" as being "composed of multiple, interpenetrating social structures operating at multiple levels" (2002, p. 225).

Figure 3.1 situates elite agency within Williamson's 'Economics of Institutions' framework (as in his original rendition, the solid arrows between levels signify constraints, while the dotted arrows signify feedback). Elite agency is neatly and simplistically separated and rendered as elite coordination and elite business model leadership (see its five types in Table 7.2). It is then first softly bound by tradition or culture—Williamson's "embeddedness" (level 1)—since business models can successfully negotiate

35 Elites seeking institutional change will argue that the alternative, bilateral principal-stakeholder *ad hoc* negotiation, especially under equalized bargaining power, would be prohibitively expensive (and usher forth an array of problems such as a lack of incentives for long-term investments or risk-taking). Conversely, the normative idea of 'equalized bargaining power equilibrium prices', introduced in Section 2.2.2, provides benchmarks and has implications that reverberate through various parts of this work up until the final Section 8.3 and the Epilogue. The introduction of the freedom to *exit* (Figure 8.5) also rebalances bargaining power differentials and qualifies the advocacy of power differentials.

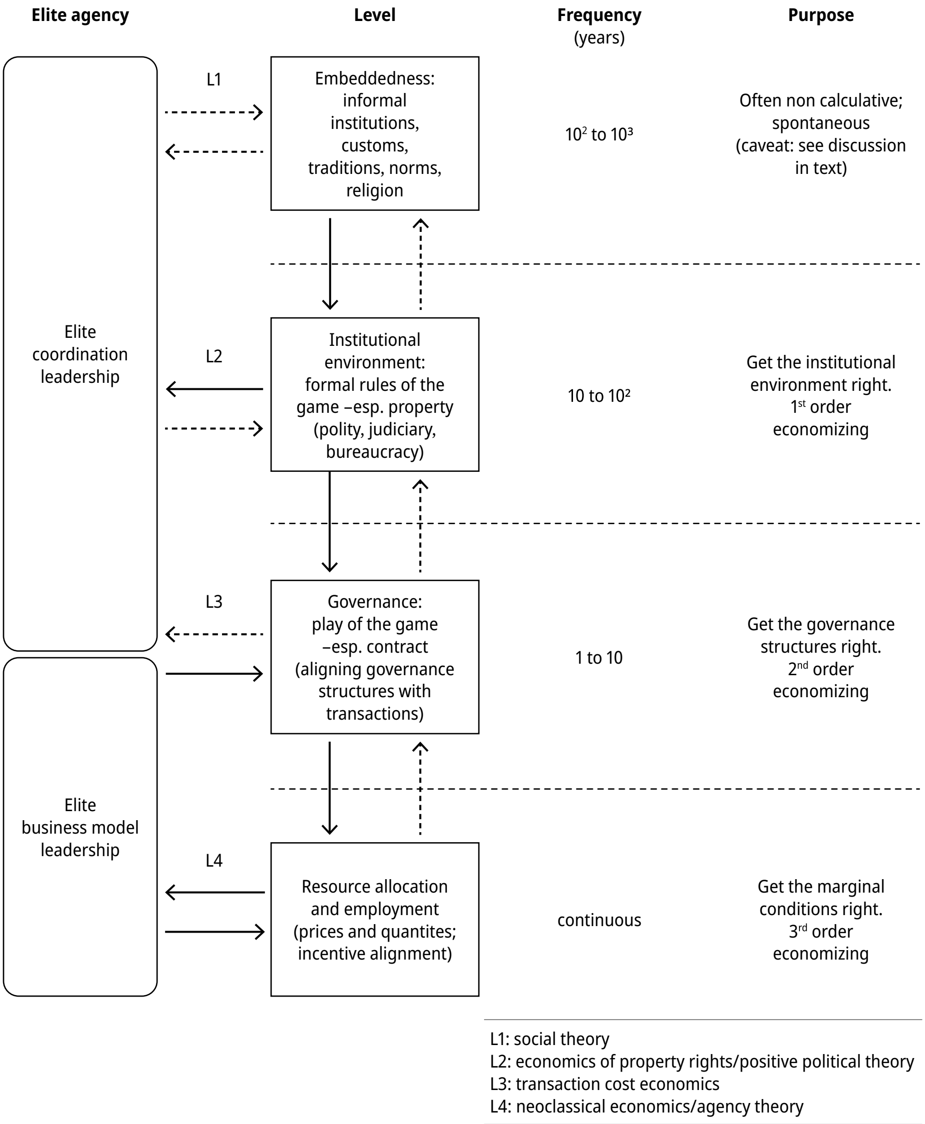

Figure 3.1: The role of elite agency in the 'Economics of Institutions'.[36]

most such limitations, for instance, by managing the narratives that interpret and evolve culture. The individual elite coalition is more strongly constrained by its "institutional environment" (level 2), but, underpinned by its agency, emits powerful feedback on its preferences regarding the fundamental institutional make-up of the country. In

36 Based on and adapted from Figure 1 in Williamson (2000, p. 597).

terms of "governance" (level 3) and the alignment of structure with transactions, elite agency is the more significant force and plays a constraining role. Elite agency in the institutional environment (level 2) relies on coordination capacity to advance specific elite business model rules and intra-elite contest rules (see Figure 4.3 for a typology of institutional change), yet in practice it is more compelling in governance (level 3) as elites "play the game" through business model leadership. As for "resource allocation" (level 4) applicable to the day-to-day running of their business models, elites, through business model leadership, strive to impose their preferences and create interim constraints on stakeholders while at the same time being bound themselves by the business rules implemented by more powerful rival elite coalitions.

Further to the earlier discussion on value appropriation (Propositions 8-11), business model rules enable both value creation and its extraction (i.e., value appropriated but *not* created). Baumol saw value extraction as a problem created by institutions when specific "changes in the rules" allocate entrepreneurial resources that are conducive "to acts of 'unproductive entrepreneurship'" and of "questionable value to society" (1990, pp. 897, 916). Buchanan's analysis of extractive rent seeking deems it "institutional economics in a very real sense" (1980, p. 14). What is at the source of such institutional failures that result in reallocations (transfers) "between productive activities such as innovation and largely unproductive activities such as rent seeking or organized crime" (Baumol, 1990, p. 893)? Olson dwells on "institutional sclerosis" (Olson, 1982; Heckelman, 2007) that he sees as a factor in the "decline of nations". What then are the causes of sclerotic institutions and how do institutional arrangements form that lead to rent seeking? Economists reference the political non-market arena and identify both government interventions and non-interventions with market inefficiencies, externalities, the absence of public goods, or changes to incentives that leave everyone worse off and that have been studied in the context of economic development (e.g., Krueger, 1990). Such (non)interventions are even thematized in textbooks on general economic principles (Mrozek, 1999). What theoretical perspectives best explain the institutional context that permits government action or inaction to occur?

The authors cited in this section convincingly address these questions on the origins of institutional formation and change processes. The explanation this work offers for unproductive entrepreneurship, institutional sclerosis, or sub-optimal government (non)intervention is unequivocal: having positioned elite agency as a precursor in Williamson's institutional framework of economics, it follows that an understanding of value creation and extractive transfers should be based on the elite agency microfoundations of institutional change, as is schematized in Figure 3.2. That is, elite preferences are the main force shaping the rules of the economy, but are also constrained by their function as an incentive in a two-way relationship. Preferences include the absence of rules to incentivize value creation (e.g., de-institutionalized contexts, grey areas, deregulation) as well as an excess of rules that incentivize extractive value transfers (e.g., over-institutionalized contexts, onerous regulation).

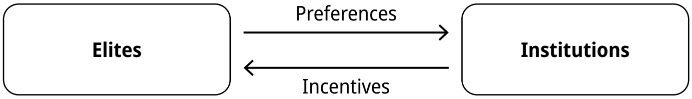

Figure 3.2: The elite agency microfoundations of institutional change model.

A central perspective for this inquiry is new institutionalism, with elite agency explicitly added to the theory to elucidate Arrow's "traditional questions of economics—resource allocation and the degree of utilization" and "new questions, why economic institutions emerged the way they did and not otherwise" (1987, p. 734, as cited in Williamson, 2000, p. 596). In the two-way causal effect relationship between elites and institutions depicted in Figure 3.2, the latter is both determined by *and* emergent from the deliberate agency of the former as it imposes its preferences. Resource allocation and utilization is first and foremost a matter of elite business model preferences incorporated in the incentive system and embodied in institutions. This inquiry also applies the microfoundations of new institutional economics (e.g., Giddens, 1984; DiMaggio & Powell, 1991; Powell & Colyvas, 2008; Smets, Jarzabkowski, Burke, & Spee, 2015) to economic development to posit that elite behavior is the driver of institutional change. North was unambiguous when he claimed that: "formal rules are created to serve the interests of those with the bargaining power to devise new rules" (1990, p. 16). Similarly, Streeck and Thelen's theoretical perspective on "institutions as regimes" has "rule makers" and "rule takers" (2005, p. 13); as posited in Proposition 13, the former are the winning elites and the latter the losers. Other authors also see elite preferences as shaping institutional change (Bourguignon & Verdier, 2010; Acemoglu & Johnson, 2005; Acemoglu & Robinson, 2008; Brezis & Temin, 2007; Robinson, 2010; contributors to Amsden, DiCaprio, & Robinson's *The Role of Elites in Economic Development*, 2014). As will be further discussed (in Section 4.2.2) and consistent with Proposition 7, the locus of elite agency engagement with institutions is the elite business model. Every business model operates on a value position, operationalized by sustainable value creation (SVC) measurements like the VCp or VCr (see the equations in Table 2.4), and so contributes to institutional quality.

Elite wins in all three of the contest arenas of the political economy (furthering bargaining power differentials vs other stakeholders) shape institutions (see Section 4.3 on power and elite agency). In the "visible hand" model of Chandler (1977), "the institutions of competitive capitalism were replaced by large-scale corporate enterprise" (Kirby, 1992, p. 638). While Chandler's powerful corporate visible hand sets the rules of the game, the relationship between specific elites and institutions must always be recognized as a two-way street: elites are also rule takers and subject to institutional constraints once these are formed or changed (as is indicated by the arrows of levels 2 and 4 in Figure 3.1). Of critical importance in the elite theory's calibration of institutional economics is that such rule changes, while formally emanating from institutions, mostly occur due to the agency of rival elites (see Section 3.3). When elites encounter rules that are unfavorable to their business model interests, these are likely to be favorable to competing elites in the elite system. Intra-elite contests renegotiate or settle the outcomes of such situations. These, and the nature, direction, and strength of the relationship between institutions and value creation and transfers are primary concerns of this inquiry.

3.1.2 Proposition 13: Elite agency determines distributional outcomes—the winners and losers in the political economy

Political economy analysis is concerned with the interaction of political and economic processes in society responsible for distributional outcomes; the "central political question" of "who gets what?" (Kelly, 2005, p. 865), or how winners win and losers lose (see a range of literature from Bastiat, 1845/1996, to Alesina & Rodrik, 1994). There is now a call to integrate political economy and institutional perspectives and so, for instance, new institutional economics has been asked "to expand its domain to include a more complete analysis of the causes as well as the consequences of government regulation" with frameworks that introduce "distributional considerations as well as efficiency considerations into the analysis" (Joskow, 1995, p. 256). Alesina and Perotti (1994, p. 351) further state that: "economic policy is the result of political struggle within an institutional structure". Lobbying, initially discussed in Section 1.2.2, is a means to that end (Hall & Deardorff, 2006), while Lowery notes that theories of lobbying "begin with the simplifying assumption that [the] prime purpose is to influence public policy", while also stressing that "interest organizations are motivated actors whose primary purpose is to survive" (2007, p. 29). Successful lobbying (see Brown, 2018; Bhagwati & Srinivasan, 1982) also aims at what economists refer to as "regulatory capture" (Stigler, 1971; Laffont & Tirole, 1991). Since business models must endure, elite agency seeks influence over public policy, regulatory capture and, in the final analysis, institutional change. It can then be argued that theories of the political economy are those that explain the institutional interactions by which elites become winners, i.e., successfully attain and retain their residual income streams.

When discussing elites and their micro-level agency, political economy performance is understood as the successful appropriation (or not) of value (created and not created) that is ultimately materialized as residual income (profits). The value appropriation capability of business models—amply discussed in Chapter 2—produces the winners and losers in the political economy. The centrality of elite business models is consistent with the work of Commons (1950), namely the idea that "the dominant organizational forms of collective action are corporations, labor unions, and political parties" (Elliott, 1978, p. 103). In fact, the list is not limited to just these three groups but is vastly more extensive and contingent on social, cultural, or historical contexts. Dominant organizational forms or coalitions might comprise a certain class of civil servants such as Britain's "treasury-dominated civil service elite obsessed with macroeconomic issues" (Kirby, 1992, p. 637), or artists like the beneficiaries of the Spanish

Society of Authors and Publishers (*Sociedad General de Autores y Editores*, SGAE). These elite coalitions need not dominate society, just the fractal nooks and crannies of the political economy associated with their substantial residual income flows (see Figure E.2); and they need not be particularly narrow, just narrower than their counterparts in the principal-stakeholder relationship. What elites then require are the bargaining power differentials to work out the specific rules of their particular game in order to appropriate value (including value appropriated but *not* created, value transfer-IN) through their business model activities.

What are the concrete institutional benefits sought by elites for their business models in political economy contests? Consistent with Table 2.2, these include licenses to operate financial intermediation (e.g., to fund highly uncertain bets on technology or issue mortgage-backed securities), free trade or trade barriers (e.g., steel tariffs), or the grant of royalties (to protect the value of creative work or transfers). The diversity of these aims determines national development. For instance, the Spanish daily *El Mundo* (2013) reports that SGAE had the audacity, until public pressure forced it to recant, to demand that a local village hand over 10% of the ticket sale receipts from their amateur performance of the beloved play *Fuenteovejuna* written by Lope de Vega in 1610. A germane point here is that institutional change that originally yielded new value creation will eventually result in extractive transfers, as the example below illustrates.

> The Internet Tax Freedom Act (ITFA; P.L. 105-277), enacted in 1998, implemented a three-year moratorium preventing state and local governments from taxing Internet access, or imposing multiple or discriminatory taxes on electronic commerce. [. . .] The original three-year moratorium had been extended eight times before being converted to a permanent statute (though the passage of the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125)). (Stupak, 2016)

Institutional change driven by elite agency determines which elites and their counterparty stakeholder groups in society win and lose (and to what degree). That is, they establish the institutionally sanctioned terms—the business model rules—for value creation and value appropriation (including transfer-IN/OUT) regimes. Given that institutionally sanctioned elite business models habitually result in winners and losers, the question for development is whether the winners are value creators or value extractors. Ricardo's *On the Principles of Political Economy and Taxation* (1817/1999), eventually contributed to the repeal of the protectionist Corn Laws (1815-1846), resulting in victory for the Manchester industrialists over aristocratic London-based absentee landowners championing trade barriers on grain (a tax on bread). The extractive transfer-IN agricultural landowner business models gave way to the comparatively more inclusive higher value creation models of the industrialists.

In short, all elites strive to advance their preferences (rules supportive of their business models) upon institutions, while institutions in turn provide incentives consistent with specific elite business model preferences. The process by which losing elites are constrained by the very incentives that benefit winning elites is visualized in Figure 3.3. This extension of the elite agency microfoundations of institutional change model (Figure 3.2) emphasizes the role of elite agency, which when positive brings about the desired division of value and political economy distributional outcomes.

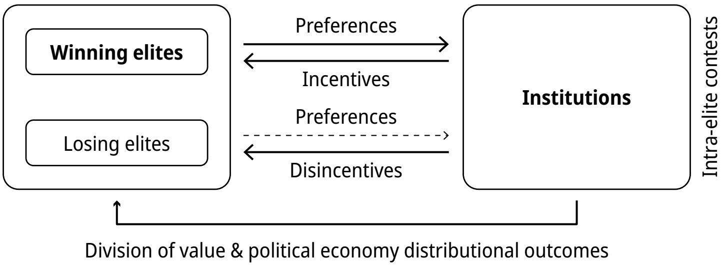

Figure 3.3: Distributional outcomes of the political economy in the elite agency microfoundations of institutional change model.

To end this sub-section on an economic development note, Laffont and Tirole alarmingly demonstrate that elite power increases "when its interest lies in inefficient rather than efficient regulation", inefficiency being "measured by the degree of informational asymmetry between the regulated industry and the political principal" (1991, p. 1089). The economic problem of positive performance at the micro-level and negative performance at the macro-level that this work addresses is brilliantly exhibited below in an article that portrays the perverse logic by which the winners of intra-elite contests in the political non-market arena are so often the losers in value creation terms:

> Governments frequently intervene to support domestic industries, but a surprising amount of this support goes to ailing sectors. We explain this with a lobbying model that allows for entry and sunk costs. Specifically, policy is influenced by pressure groups that incur lobbying expenses to create rents. In expanding industries, entry tends to erode such rents, but in declining industries, sunk costs rule out entry as long as the rents are not too high. This asymmetric appropriability of rents means losers lobby harder. Thus it is not that government policy picks losers, it is that losers pick government policy. (Baldwin & Robert-Nicoud, 2007, p. 1064)

3.1.3 Proposition 14: Elite agency effects institutional change through the political economy's narrative market

> As a public policy, the moratorium on taxing Internet access has economic and fairness implications. The policy likely improves lower income individuals' ability to purchase Internet access, which has economic benefits, but the blanket nature of the moratorium likely results in some economic waste. (Stupak, 2016)

There is a cynical intellectual tradition to conceive of narratives as a product of elite agency that function as a narcotic, fostering non-elite 'acceptance' responses to extractive business models (e.g., Marx, 1844/1959a). For instance, smart and sophisticated narratives are crafted by legal knowledge elites such as those in finance industry coalitions, with Pistor (2019) poignantly explaining in *The Code of Capital* "how the law creates wealth" as well as "inequality". Elites have a commonly unnoticed advantage in the narrative market: their own narratives do not have to occupy their own affective bandwidth; it suffices if they work on the cognitive plane. That is, elites enjoy the privilege of not having to believe in their own narratives and can just focus on how these support the residual income of their business models. Hence, when judging elites by their actions, one will frequently notice how religious leaders don't live by their faith, politicians don't honor their pledges, or corporations don't stick to their mission statements. For non-elites, the connection between narratives and residual incomes is much more tenuous and so their relationship with them is through affect, emotion, and sentiment. The utility function of the elite is aligned with elite identity (Section 2.1.2) and firmly anchored by the business model, and hence can be best represented with RCT tenets (Section 2.1.1). In contrast, non-elites are permanently unclear about where their residual income interests are. This problem is accentuated by the fact that they are at both the long and short-end of multiple and narrow models and narratives (as employees, taxpayers, energy consumers, interest rate payees, and even as direct or indirect participants in wars). Through this dispersion, non-elites are not positioned to discern whether a given narrative provides them with an advantage, thus naturally embracing narratives by their affective qualities at the expense of objective and rational merits that are to them mostly unforeseeable and *de facto* unknowable.

Regardless of whether one concurs with this Olsonian and economic logic (that helps to explain the resilience of non-elite faith and the Marxist opium metaphor), narrative markets are of great consequence in most political economies. They are also the very reason why diverse knowledge elites—with specializations ranging from the law to entertainment—are underscored in this work as one of the three discrete elite types (see Figure 1.2). What then are narratives?

Narratives *per se* are open-ended stories that communicate values, invite participation, and "spark action" (Denning 2006, p. 44); they can go viral and in so doing impact human behavior and economic reality (Shiller, 2017; Hagel, 2011) including the very value of a business (Damodaran, 2017). Of interest here is that many narratives—e.g., the blanket policy not to tax Internet access that "improves lower income individuals' ability to purchase Internet access" (Stupak, 2016), articulated as a "fairness" narrative—are launched in political economy contests to effect division of value strategies and hence the distributional outcomes desired by elite coalitions (see also, Alesina, Cozzi, & Mantovan, 2012). Narratives are essential to any elite theory and are not a construct that has slipped through the empirical grasp. To Abell (2004, p. 287), narrative explanations can be taken as "an alternative to the better established variable-centered explanations".

Moreover, narratives and institutions are not always "clearly distinguishable" (Beckert, 2016, p. 153) which one may posit is due to a property that they have in common with elite agency, namely transaction cost reduction. In fact, no matter how well-endowed institutions are—think of the US dollar or China's Belt and Road Initiative (BRI)—all need to be sheathed in a winning narrative to be sustainable (Casas-Klett & Li, 2021). Narratives have "the power of pull" (Hagel, Brown, & Davison, 2010) and capture affective and cognitive bandwidth, which addresses the collective action dilemma by overcoming individual interests and allowing forms of cooperation that make everybody better off (Shiller, 2017; Casas-Klett & Buckup, 2018). Narrative markets have such an impact that when Yuval Noah Harari makes the claim "that AI has hacked the operating system of human civilization" it follows that "storytelling computers will change the course of human history" (*The Economist*, 2023a). Narrative pull is what Donaldson (2021, p. 5) terms "practical inference"; narratives ultimately package ideas and "Ideas make for actions. Ideas serve both as motivators and justifications for action".

Narratives compete against each other for the contested power of 'mind' (see Figure 1.2). Winning power in society's narrative market arena is a strategic objective for elite agency since it facilitates the desired institutional change. Moreover, wins for the power type of 'mind' enable intra-elite alignment in the context of a given coalition (e.g., renewable energy entrepreneurs with venture capitalists, legislators, or scientists). Narratives conjure the full coordination capacity of shared "sensemaking" thus tightening the "loose [. . .] correspondence between concepts and observables" (Gergen, 1986, as cited in Weick, 1989, p. 519) and as such, they are a device for both intra-elite and elite/non-elite cohesion. Critically, however, when viewed through the analytical lens of this inquiry, narratives can be a device for extraction, as is the case when the "fairness" supposedly intrinsic to the Internet Tax Freedom Act "likely results in some economic waste" (Stupak, 2016), distorting income flows in favor of elites whose models stand to benefit from tax privileges. Because of their coordination effect, narratives, the primary products of knowledge elites, "set changes and transformations in motion that have impacts on the big picture" (Boje, 2008, p. 13); for the ETED, they do so by first granting and then confirming the licenses to operate elite business models in society.[37]

Narratives are dynamic and evolve. As an instrumental power type, they are subject to lifecycles, and are especially relevant in times of disruption "when environmental contexts change in a way that leaves actors without an ontologically complicit

37 In fact, to some philosophers, 'the big picture' means that narratives influence—or are even—the totality of "reality", as in Bruner's claims that "narrative organizes the structure of human experience" (1991, p. 21), or in the Foucauldian hypothesis: "that in every society the production of discourse is at once controlled, selected, organised and redistributed by a certain number of procedures whose role is to ward off its powers and dangers, to gain mastery over its chance events, to evade its ponderous, formidable materiality" (Foucault, 1981).

relationship to institutions as scaffolds of action" (Strand & Lizardo, 2017, p. 164). Just as there is no institutional determinism (Seo & Creed, 2002), there is no narrative determinism. Narratives constantly need refreshing and adjusting to both social and business model realities. It is not old narratives, but the "practical belief" contained in new narratives that will "orient action in an effective way because it is formed in relation to objective probabilities" (Strand & Lizardo, 2017, p. 188). Purchasing behavior is one such action and so firms invest in their brands with particular, contained narratives that give their owners or handlers bargaining power, notably in the form of pricing.

Linking an organization with winning narratives is a unique strategic management capability that is consistent with Lyotard's (1979) *petits récits*—"localized" narratives—in this case those focused on a particular business model. Leading corporations have associated themselves with or adopted the Black Lives Matter (BLM) narrative, a trail blazed by Nike with its 'Dream Crazy' spot featuring NFL quarterback Colin Kaepernick for the 30th anniversary of its 'Just Do It' campaign (Buckup & Casas-Klett, 2018). Narratives are created, captured, refined, and maintained through the agency of highly specialized knowledge elites within business models that strive for advantage in the political economy. The fate of individual narratives is highly uncertain and dynamic, as the rise of BLM or Bitcoin from marginal to mainstream illustrates. Some narratives may triumph in arenas material to elites and thus garner substantial impact while remaining marginal to the public discourse (e.g., TESCREAL narratives[38]). A majority of narratives remain stillborn, while others go viral (Shiller, 2017), sometimes unexpectedly, to then either suddenly collapse (e.g., FTX in November, 2022) or evolve to score continued wins in narrative markets sometimes for centuries (e.g., religious sects that go on to become established faiths). Narratives form in the spaces of knowledge elites that are specific to each society: academia, religion, publishing, traditional and new media, film and TV production, the justice and legal systems, art and literature, conferences and events, or on digital platforms where influencers and key opinion leaders ply their trade.

Like narrative market outcomes, their capture by business models is often unintended (e.g., Buddhism becoming an establishment religion in East Asia rather than South Asia) to the point of disappointment (e.g., Bitcoin becoming a significant means of payment for illicit activities in Darknets[39]), especially for the knowledge elites that

38 TESCREAL is an acronym for transhumanism, extropianism, singularitarianism, cosmism, rationalism, effective altruism, and longtermism, with some claiming that these narratives have "become immensely influential in the world today—especially in Silicon Valley", with Musk, Thiel, Page, Andreessen, or Altman taking action and making investments that fit its precepts, meaning that "one cannot make sense of the AGI race without some understanding of this bundle" (Torres, 2023).

39 Europol articulates the gap between a narrative and its actual application. Darknets, the networks, their tools, and crypto forms of payment "are designed and intended to protect users from traffic analysis, which 'threatens personal freedom and privacy, confidential business activities and relation-created the narratives in the first place. Equally disappointing to their creators are narratives that are adopted as mechanisms to preempt the institutional changes they advocate from being implemented. This is precisely what is happening in the case of the United Nations' (UN) Sustainable Development Goals (SDGs) as evidenced by more than 3,000 published scientific studies:

> Our findings suggest that the goals have had some political impact on institutions and policies, from local to global governance. This impact has been largely discursive, affecting the way actors understand and communicate about sustainable development. More profound normative and institutional impact, from legislative action to changing resource allocation, remains rare. We conclude that the scientific evidence suggests only limited transformative political impact of the Sustainable Development Goals thus far. (Biermann et al., 2022, p. 795)

However, not all narratives are captured part way through their lifecycles, domesticated[40], and then put into the discursive service of business models.

Some 'localized' narratives are born with highly intentional aims and the product of a specific elite coalition that consistently nurtures their growth (e.g., the modern Olympic Games). Narratives hatched on a grand scale by core elite coalitions, such as post-World War II liberal democracy, resulted in massive political economy reforms. Once this narrative became viral and spread across the globe, its associated institutions supported an array of specific elite business models and brought about unprecedented new value creation. After the extractive catastrophes of the first half of the 20th century, this narrative champion—a *de facto* sophisticated concerted bet on value creation—was further buttressed by diverse elite coalitions with contributors coming from all three types of elites: business, political, and knowledge. Narratives endure in the 'mind' (and heart). Nonetheless, what really matters is their relationship with the hard reality of value appropriation. Meanwhile, some narratives, like the unintelligible Q-Anon, also go viral, and while their original purpose remains opaque, it is hard to see how they will result in anything other than value extraction. Wins of the power type of 'mind' are unceasingly converted into residual income whether the narratives are initiated or later captured by business models. A well-forged narrative provides cover for elites across every conceivable nook and cranny of the economy, in every single market niche:

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ships, and state security' (Tor, https://torproject.org/), they are also used by criminals operating online to protect their own freedom—by frustrating law enforcement attempts to identify and arrest them". See: https://www.europol.europa.eu/iocta/2016/darknets.html

40 The process of domesticating narratives can include the culling of its primary components. One might assert that this is what transpired when Archbishop Athanasius of Alexandria proclaimed the four Christian canonical Gospels in the year of 367, as he "sent an order to purge all 'apocryphal books' with 'heretical' tendencies", the vast corpus of Gnostic and other texts (see Pagels, 1979, p. 120). More recently, in *Elite Capture* (2022), Olúfẹ́mi Táíwò discusses the take-over of identity narratives ("and everything else") by "the powerful".

> This “consumer welfare” theory of antitrust was the poison dart that plunged trustbusting into a 40-year coma. Bork and his cronies at the University of Chicago School of Economics – the cradle of neoliberalism – set up a sweet side-hustle, building complex mathematical models that only they understood.
>
> These models were used to prove that every monopoly was untouchable under consumer welfare enforcement standards – even if a company bought all its competitors and then increased prices 1,000% (as Luxottica-Essilor did for eyeglasses, after buying nearly every eyeglass brand, retailer, insurer and lens-maker), it was still untouchable. (Doctorow, 2022)

The “influence on doctrine, policy debate in the United States” of Robert Bork’s narrative in *The Antitrust Paradox* (1978) “is unequalled. No scholar has left such a durable imprint on the U.S. antitrust system” (Kovacic, 2014, p. 855). In short, incumbent or emerging elite business models pursue a variety of narrative strategies to attain the power over ‘mind’. These include starting-up and cultivating a specific narrative (e.g., Tesla’s high end electric vehicles combat climate change), or piggybacking on it as it grows (e.g., Daimler or Ford signing the COP26 pledge to sell only zero-emissions vehicles by 2040). Strategic management also entails discarding narratives at their peak or as they become tarnished (e.g., investors disposing of “algorithmic stablecoins” after the TerraUSD sell-off in May, 2022). While they hold claim on cognitive and affective bandwidth, narratives are used for desired institutional change. The success of legal scholar Robert Bork’s “consumer welfare” narrative is evident from its positive transition into legal doctrine to defang anti-trust legislation, the value appropriation services it provides to countless elite business models such as Luxottica-Essilor, and the all-out defense of the narrative by its beneficiaries against reforms such as those proposed by Lina Khan, President Biden’s Chair of the Federal Trade Commission (FTC).[41]

The narrative market, like the two other political economy arenas, might be conceptualized as a mediator—and an especially effective one—of the relationship between elites and institutions. The strength of the mediation role of narratives is due in part to the intra-elite and elite/non-elite cohesion effect they possess. To the theoretical architecture of the ETED, it is important that the narrativized preferences embodied in winning narratives shape the rules that determine the winners (and losers) in political economies. Frequently, the narrative market is the defining arena in intra-elite business model contests. A case in point is found in the complex political economy of Indonesia: “elite competition turned to religious and then to ethnic identity politics when district executives encountered both the enrichment possibilities of decentralizing governance and the risks of newly competitive, more democratic, elections” (Aragon, 2007, p. 39). To the earlier discussion of Ricardo’s free trade narrative (1817/1999) in support of modern industrial elite coalitions, we can add Mokyr and

41 See: https://instituteforlegalreform.com/blog/robert-h-bork-jr-joe-bidens-antitrust-paradox-wheres-the-consumer-welfare/

Nye's (2007, p. 50) insight in attributing the transformation of the terms of the debate around the political economy to the Scottish enlightenment's ideological changes, "so that gainers from industrialization could compensate or overcome traditional interests". Gramsci's theory of cultural hegemony, articulated in his *Prison Notebooks*, specifically places narratives at the center of society and links them to elite agency:

> The basic premise of the theory of hegemony is one with which few would disagree: that man is not ruled by force alone, but also by ideas. "The foundation of a ruling class" he wrote "is equivalent to the creation of a *Weltanschauung*." (Gramsci, 1948/1966, p. 75, as cited in Bates, 1975, p. 351)

Whether termed "the ideologies and belief systems [that] underlie the choices humans make" (North, 1994, p. 363), or the "neo-Marxist variation of the upper-class thesis" that Lerner, Nagai and Rothman (1996, p. 2) and others (see Bieler & Morton, 2004) label "neo-Gramscian", social order is not maintained through hard power alone: "class rule exists because the cultural, political, ethical, and intellectual elite articulates a worldview that everyone, ruling and ruled, comes to uphold". The notion that "culture has been captured", as Giblin and Doctorow contentiously assert (2022, p. 2), should therefore come as no surprise. Social order, or in more farfetched versions a "world order" (Cox, 1983), is invariably constituted of the winning narrativized preferences of specific elites and their business models. Alesina, Cozzi, and Mantovan specifically show how "beliefs about fairness"—here taken to become functional as narrativized preferences (e.g., for redistributive policies)—"can keep two otherwise identical countries on different development paths for a very long time" and hence affect growth (2012, p. 1244). Wins in the narrative market explain a key mechanism that underpins the relationship between elites and institutional change. Figure 3.4 illustrates the function of the narrative market as a mediator between elites and institutions.

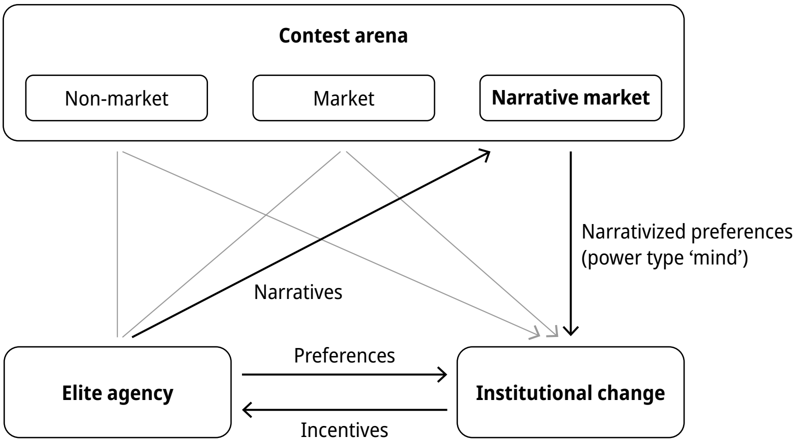

Figure 3.4: The narrative market as a mediator in the elite agency microfoundations of institutional change model.

As implied by the discussion above, narratives are enormously challenging to manage. As outcomes of complex adaptive systems, their emergence, power-law distributions, virality, and trajectory are unpredictable, curious, and often paradoxical, thriving in reversal and surprise. And yet the narrative market supplies elites with potentially stable, highly effective, and low-cost bargaining power endowments, and as a result hosts some of the most sophisticated, persistent, and high impact intra-elite contests. These include the contests that determine the core elite coalition and its role in a political economy (see Figure 8.1, Section 8.1.2). All elite coalitions will strategically select and develop, co-opt, domesticate, handle, and nourish narratives from the non-elite public domain as they seek to use them to align institutional change with their business model preferences. At times it is hard to tell whether narratives are being repurposed by elite agency (and by which coalition) or have escaped their purview, genuinely taking on a life of their own. A narrative's journey might also start with a specific application in an intra-elite contest, only to reappear later in the service of unrelated business models. An example of the travails of one such resilient narrative—seemingly operating on its own terms—is the *Magna Carta Libertatum*.

The first version of the Magna Carta dates from 1215, a narrative that resolved the intra-elite power struggle between two competing elite business models: the model of the King of England and the model of the barons (a dispute that revolved around payments to the Crown). Centuries later, the Magna Carta narrative had evolved to support very different kinds of interests. An emergent elite coalition, the American colonists, used it "no longer as an anti-royal instrument so much as a check upon the powers of an over-mighty parliament" (Vincent, 2018, p. 36), a struggle that led directly to the 1776 *United States Declaration of Independence*. American liberation meant the establishment of institutions more advantageous to the business models of local elites. Further down the line, there are even "echoes" of some of the clauses from the Magna Carta in the 1948 *United Nations Universal Declaration of Human Rights* (Vincent, 2018, p. 32). It might even be argued that the Magna Carta narrative, now broadly repositioned in terms of human rights and liberty, has at last freed itself from its instrumental role in supporting specific elite business models.

Interestingly, narratives can also be a unique avenue for non-elites to effect institutional change, on the condition that elites support and incorporate non-elite narrativized preferences into their business models. Google and Nike are just two of the elite business models that have associated their brands not only with BLM in general, but also with its non-elite narrative of social justice, ostensibly in a win-win fashion. Rules and policies on business models that impact the appropriation of value creation by non-elites like college loan guarantees, wars, or universal healthcare are regularly updated by political elites and often occur on the back of non-elite narratives (whether and to what extent they ultimately realize the diverse interests of non-elites in value creation terms is a separate matter). A common tension in such alignments is the betrayal felt by non-elites when they ally with elites that then dilute or even reverse their original narratives, as when "ex-Google workers sue company, saying it betrayed ‘Don’t Be Evil’ motto” (Allyn, 2021). More dramatically, from the non-elite standpoint (a perspective further advanced in Chapter 8) the wrong battles are won when victories elevate elites that then devise business models that conflict with the value creation interests extolled by the narratives that forged the original alliances and grounded elite/non-elite cohesion. For instance, religious and secular values, ethics, ideologies, and philosophies emerge and gain traction as a non-elite reaction to value extraction and, once preeminent, are taken up by elites to legitimize both inclusive and extractive institutions. Expensive theocracies and value transfer models run by extractive priestly castes represent a reversal of non-elite narrativized preferences. Many of the non-elites that helped bring the Chavez-Maduro regime to power in Venezuela assert the same thing. A further twist occurs when non-elites support narratives that clearly disadvantage them, as many would claim is the case with key elements of the Trump Administration’s original MAGA policy package, such as the “sabotage” (Thompson, 2020) of the Affordable Care Act of 2010 (Obamacare). Non-elite narrative confusion over where their real interests and narrative preferences ought to lie is facilitated by elite/non-elite knowledge asymmetries. This brings about business models that see non-elites happily being extracted on the back of narratives, as is evident in debates on trade, monetary policy, or immigration. While Pareto does not address narratives directly, he provides keen observations on the messiness of their journeys and reversals after originally emerging to serve non-elites:

> From the day when Jesus preached love and peace in Galilee to the day when warlike prelates donned armor over their stoles and went out to kill in the name of the divine master, a good many centuries have gone by. But only a few years passed between the day on which the German Marx announced the glad tidings to the proletariat and the day on which some German socialists substituted for the motto: Proletarians Unite, the motto: Proletarians Kill Each Other. (Pareto, 1968/1991, p. 55)

Despite these treacherous waters, the narrative market, as described in Figure 3.5 below, is where non-elite interests can most readily gain ascendancy and impact the narrative preferences of elites to effect inclusive institutional change. This route can be used strategically—though it is usually not—to nudge elites towards transformation and sustainable value creation (i.e., better VCp/VCr scores) in high-impact business models where broad swathes of non-elites are major stakeholders. Later in this inquiry, a more explicit non-market role within the elite theory’s system is outlined for non-elites to advance more inclusive political economies, for instance, via active non-elite participation in intra-elite contests (see the political options for non-elites to advance their interests in the context of the elite/non-elite relationship in Figure 8.2).

In the reviewed literature, the link between narratives and elites is emphasized and richly formulated. From Gramsci’s (1948/1966; see also Hoare & Nowell Smith, 1999) macro-level theory of hegemony and “political ideologies as means of getting

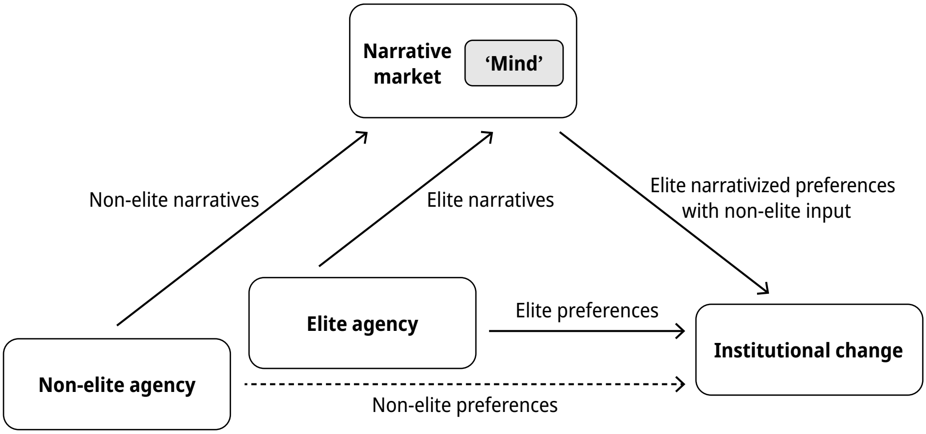

Figure 3.5: The narrative market as a mediator in the institutional change model incorporating non-elite narratives.

votes" (Downs, 1957, p. 96) to Zingales (2017, p. 115) "'political theory' of the firm", where two out of the six "nonmarket factors" relate to narratives, i.e., the media market and the dominant ideology. The fact of the matter is that the narrative market arena, despite the abstraction levels of some narratives, yields very tangible opportunities for practical institutional change and transformational leadership. Again, narratives can be effective tools even for elite coalitions active in the most recondite of niches. For example, not three days had elapsed since the coup d'état against the State Counsellor of Myanmar, Aung San Suu Kyi, in February 2021, before Spanish rice farmers lobbied Brussels—utilizing the human rights narrative—for the annulment of trade agreements with Myanmar to benefit their interests (Vigario, 2021). Any analysis of the distributional outcomes in the political economy requires a theoretical prime of place for narratives.

As notions and theories of narratives (Abell, 2004; Denning, 2006; Hagel, 2011) enter economics and are enriched by the behavioral sciences (Shiller, 2017), the linkages to elite agency are likely to be further explored and modeled. Without the coordination capacity and the power over 'mind' (understood as a piece of the cognitive and affective bandwidth of others) that narratives afford, knowledge elites would be relegated by 'might' (political elites) and 'money' (business elites) to the sidelines of the political economy. A precise understanding of the role of narratives in the political economy's distributional contests; how they emerge and evolve, how they can be quantified, how elite business models narrativize preferences, how narrativized preferences impact institutional change and motivate leadership, and how novel AI-concocted narratives influence the narrative market (again, see Harari in *The Economist*, 2023a) must all be part and parcel of a comprehensive theory on the subject of elites.

3.2 Propositions on the national elite system

Elite agency is the force that fuses economics and sociology together, defying the lack of a unified social science. According to Fukuyama (2016, p. 208), this absence is due to a post-modernist impossibility of general theory and to the exaggeratedly positivistic and theoretical nature of economics. This situation is galling, as Parsons, the leading pundit on Weber, aimed for economics to be "conceived as standing within some sort of theoretical matrix in which sociological theory also was included" (1970, p. 828). His book, *The Social System* (1951/1991), provides an integrated, interdisciplinary social science that combines economics, sociology, political science, as well as the family. Should a theory of economic development that potentially affects the welfare of all participants in society not also aim for such integration? The next three propositions move this inquiry in the direction of such a general theory and introduce a systems perspective. The first applies systems theory to the elite system and elite coalitions (Proposition 15). The next develops the key integrative property of the elite system, the Three-tier Set of Intra-elite Checks and Balances (Proposition 16). Finally, the elite system is situated squarely at the meso-level of the political economy (Proposition 17).

3.2.1 Proposition 15: Elite coalitions are the constitutive elements of national elite systems

Aristotle's notion (1912, 5.8) that "the whole and all the parts together are large, though made up of small parts", grounded Von Bertalanffy's (1972, p. 407) general systems theory, where a system is a cohesive aggregate of interdependent components possessing emergent behaviors. This proposition postulates the existence of a cohesive elite system as a component of every single political economy, the interdependent, constitutive components of which are elite coalitions characterized by their elite business models.

The "scientific exploration of 'wholes' and 'wholeness'" (Von Bertalanffy, 1972, p. 415) can be applied to the study of elites as components in a system, an understanding that fits with the positions of Parsons (1951/1991), Simon (1962) or Hayek (1964/1967). The system's component elite coalitions should in turn also be understood as a system, albeit a sub-system of the whole. Earlier, this work reviewed Mills' (1956) "power elite", Domhoff's (1967, 1970) "governing class", Jenkins-Smith and Sabatier's (1993) work on advocacy coalitions, and Sklair's (2012) "transnational capitalist class" (TCC), all of which portray how various elite types and actors complement each other, jointly functioning like a system. Zingales (2017, p. 114) pinpoints the systemic nature of elite coalitions with a historical metaphor; the "Medici vicious circle", where "economic and political power reinforce each other" (to which this theory adds knowledge elites, see Figure 1.2). Applying systems theory to elite agency means, for instance, that analysis of the Princely House of Thurn und Taxis elite coalition and its courier business model is not viable without considering the Hapsburg political economy system and its imperial narrative. Hall and Deardorff's theory of lobbying is also consistent with the idea of coalitions as sub-systems since the objective "is not to change legislators' minds but to assist natural allies in achieving their own, coincident objectives" (2006, p. 69).

In every coalition, 'interdependent' member elites coalesce around a preferred business model. Amazon would not be possible without the support of knowledge elites behind the 'fair', tax-free Internet access narrative, political elites like US lawmakers, and business elites on Wall Street. In turn, at the national elite system level, the different elite coalitions and their business models 'reinforce each other' as sub-systems of a larger whole irrespective of their varying degrees of elite cohesion or "horizontal integration" (see Best, 2018a). In times of international crises, American elite coalitions and their separate business models—e.g., the US military-industrial complex, Big Tech, The White House Office of Science and Technology Policy (OSTP), the foreign policy establishment's knowledge elites at The Council on Foreign Relations (CFR), or Princeton's Woodrow Wilson School of Public and International Affairs—cohere in an unmatched fashion.

In essence, the analysis of elite agency is strengthened by systems theory applied at two levels: the elite system, and the elite coalition (see Figure 3.8). The higher of these (at the meso-level, see Proposition 17) is the national elite system (technically also a sub-system of the political economy system) whose component parts are elite coalitions (at the micro-level). Elite coalitions are hence systems too (technically sub-systems of the national elite system) that bind together diverse individual elite members, each proficient at winning intra-elite contests in their respective political economy areas for their elite business model. The operation of the elite coalition business model must be considered as a whole, even when the constituent elites may run their own independent residual income generating concerns that can be analyzed separately (in the previous example, Amazon, the 'fair access' narrative, academic and media elites, legislators, the investment banks and, of course, Jeff Bezos).

Different types of elites within the coalitions in the elite system have been variously theorized about and empirically identified in the literature: economic, political, financial, legal, intellectual, intelligence, military, civic, media, artistic, etc. Elite research in political science, reviewed in Section 1.2.2, concentrates on their differences, finding for instance "that the political elite were different from other elite groups" (Blondel & Müller-Rommel, 2007). This work proposes that the at times dazzling repertoire of elite types identified across time and space (from military and religious to banking and corporate) be simplified and conceptually typified based on the three arenas in which elites carry out their principal contests. To recap, this suggested tripartite elite typology of the ETED (see Figures 1.2 and 2.1) is comprised of business elites (the winners of contests for the power of 'money' in the market arena of the economy), political elites (the winners of contests for the power of 'might' in the non-market arena of politics), and knowledge elites (the winners of contests for the power of 'mind' in the narrative market arena of society). Elite coalition business models integrate these three elite types and combine their respective wins and the power this affords through elite coordination leadership (see Figures 1.2, 4.1, or 4.4). Elite business model leadership of the coalition then converts this power via division of value strategies into residual income for its diverse members (see Figures 2.1, 4.1, or 4.4).

Pareto's (1968/1991) hierarchy of elites distinguished between the governing and non-governing elite by political power. In the ETED, the elite hierarchy is the result of two leadership types. Elite business model leadership is exercised—sub-system by sub-system—at the elite coalition level. Elite system leadership (discussed in Section 7.2.4) is exercised by the 'core elite coalition' (see Section 8.1.2; Figure 8.1, the socio-economic structure pyramid) at the elite system level. Their concerns include setting the rules for intra-elite contests, national development, and gaining advantage over foreign elites (see Table 7.2 on the varieties of leadership). Elite system leadership of the core elite coalition, what Sebudubudu and Molutsi (2011) call "grand coalition" in their study of Botswana, institutionalizes intra-elite contests. Elite business model leadership, on the other hand, is a key focus of this section and primarily concerned with generating and maintaining residual income flows and influencing institutional change relevant to the coalition's business model. As such, the leadership exercised by the many independent coalitions around their models is the fundamental organizing dynamic in national elite systems and figures prominently in the conceptualization of the elite coalition shown in Figure 3.6.

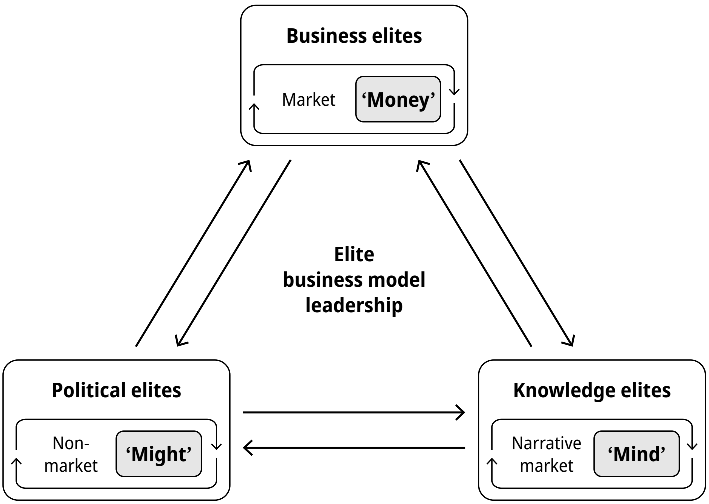

Figure 3.6: The elite coalition as a sub-system of the elite system held together by elite business model leadership.

Consistent with the systems approach, Figure 3.6 shows that members of all three elite types participate in elite coalitions, sub-systems in the elite system that are held together by the gravitational force of elite business model leadership. Note that the principal of an elite business model is seldom a single firm but a collection of interdependent organizations benefiting from the model's power differentials, each receiving their own discrete residual income flows (and not suffering from degrees of extraction in the way that non-beneficiary stakeholders might). The foremost beneficiaries of elite business models within the coalition (i.e., those who appropriate the largest shares of residual income) are usually those that supply the highest coordination capacity and then apply it to manage the conversion of power into residual income. The members of the coalition that do not lead the elite business model still have their own activities embedded within it and are beneficiaries, taking a share of the residual income derived from value appropriation (including income derived from transfer-IN activities). The ancillary models of coalition members might include high-end service providers such as the partners in white-shoe law firms or lobbyists, highly differentiated suppliers in industrial value chains, or individual members of old boy networks of retired politicians and top civil servants (such as the Japanese *amakudari*, literally those who 'descend from heaven').[42]

To thrive (or survive), elite coalition leadership must deliver a degree of integration into the national elite system for its coalition sub-system. Integration is especially relevant for emerging elite coalitions regardless of whether they are undergoing endosmosis, infiltration, or admixture (see the modes of elite circulation in Figure 1.1). Returning to the emerging elites of crypto and to illustrate their integration into the elite system, *The Wall Street Journal* articulates the headline "Crypto Aims to Boost Influence With Washington Hires" (Kiernan & Michaels, 2022),[43] while *The Financial Times* highlights the case of Sam Bankman-Fried, the now imprisoned "FTX entrepreneur" who just a few months before his arrest and extradition "emerged as the second-biggest donor to liberal groups after George Soros" (Palma, Weaver, & Gilbert, 2022). Ultimately, the destiny of specific elite coalitions and their business models is inseparable from the elite system in which these become embedded components (see Section 4.2.3). To further describe the concept of the elite coalition within the system let us consider the cases of Facebook or Google.

The success of any coalition is attributable to effective elite coordination and business model leadership realized in all three of the system's contest arenas. Specifically, Internet firms not having to pay "for the content they carry from publishers"

42 The typical "old boy" *amakudari* standing "at the apex of power" is the "former government official who after retirement from civil service (*amakudari*), is re-employed in politics or the private or quasi-private sector and begins a second career in which he draws heavily on the expertise and personal relationships he accumulated in his former profession as a bureaucrat" (Schaede, 1995, p. 29, as quoted in Schmidt 2004, p. 80).

43 The recruits now "working for or advising cryptocurrency firms or investment funds include three former chairs of the Securities and Exchange Commission, three former chairs of the Commodity Futures Trading Commission, three former U.S. senators, and at least one former White House chief of staff, former Treasury secretary and former chair of the Federal Deposit Insurance Corporation" (Kiernan & Michaels, 2022).

(Ingram, 2020) might profit from value appropriated but *not* created, riding on wins in the political non-market arena. Such wins (see the discussion on the microfoundations of institutional formation and change in Section 4.2) are often preceded by wins in the narrative market (see Proposition 14), in this case from the doctrine that open technology platforms are not publishers. Here, a critical contribution to the success of Internet coalitions has been provided by knowledge elites in the media, law, and academia. Reflecting 'political economy know-how', the narrative market and political non-market arenas wins support, and are supported by, income streams derived from online traffic i.e., wins in the (advertising) market arena, thanks to superior management, sales techniques, and technology, i.e., 'knowledge'. In contrast, the inconsequence of the Facebook and Google coalitions in the Chinese market illustrates the role and importance of the *national* elite system and, in this case, their disinterest or inability to integrate (unlike the Apple or Tesla coalitions, both of which have booming elite business models in China). It also highlights the interdependencies that exist across the three contest arenas: a loss in the political non-market arena (here in Beijing, but potentially in Delhi, Brussels, or, as was the case with Huawei, in Washington DC) can *ipso facto* nullify wins in the local market and narrative market arenas. The extent to which the remedies that will follow US federal judge Mehta's 286-page decision (United States District Court for the District of Columbia, 2024) that Google is a "monopolist" interfere with the gravitational pull of its massive residual income generation capacity is yet to unfold.

Not all elite systems exhibit the same degree of cohesion (a conceptual element further harnessed in Section 5.3.3 and linked to a discussion on leadership in Section 7.2.4). Here, and further to Proposition 14 on institutional change effected via narrative markets, special emphasis must be placed on the role of narratives in creating the elite system cohesion that connects the overall system with the single coalition. Elite coalitions are atomized by vocation (and literally split from each other by nature) because while their sole desire is to maintain their own residual income and the elite status of their members, in practice they are also integrated and dependent subsystems of the wider elite system. That means that an agricultural elite business model might be extremely focused on sugar production and marketing, but to make significant returns from cane production is not possible in the US—unless one is part of an elite coalition profoundly embedded in the system. So, when "the U.S. spends $4 billion a year subsidizing 'Stalinist-style' domestic sugar production", the coalition's specific residual income recipe of 'sugar production (market) + farm bill (non-market) + US farm protectionism (narrative market)' can be explained as follows:

> The program, which dates back to the 1981 farm bill, generates over $1 billion a year in profits for growers, or an average of more than $200,000 per grower, according to the [American Enterprise Institute] report. One Florida family that plays a dominant role in cane production is estimated to benefit to the tune of between $150 million and $200 million a year.

> No wonder the U.S. Sugar Alliance, the major lobbying arm for U.S. sugar growers, is extremely well funded and uses its resources to maintain a highly protectionist, trade-distorting program that costs a family of four between about $44 and nearly $50 a year in subsidies. (Smith, 2018)

Since subsidies (a prevalent second-order value transfer activity) are not paid directly by consumers, sugar is comparatively cheap, leading to higher sugar consumption and thus to other known negative externalities such as obesity,[44] which in effect constitute additional extractive value transfer-OUT from stakeholders. Another "agricultural lobby", one that "is powerful in the Knesset and organizes quickly", invests its non-market and narrative market wins in a different transfer model type:

> "In Israel, not only do we have a lot of protections for the agricultural sector, we have a very peculiar way of protecting it [. . .] protections come not in the form of subsidies (although there are some) but rather in allowing the farmers to form legal cartels."
>
> There is a cartel of eggs. There is a cartel of vegetables. There's a cartel of milk. For each one of these agricultural products, there is a cartel. And they don't have to compete with imports because imports are very restricted. Of course, this increases the price of food. (Sarel, 2022)

This section's emphasis has been on the constitutive elements of the elite system, as the goals of each individual elite member can only be realized as part of an elite coalition, which in itself is a complex system "made up of a large number of parts that interact in a nonsimple way" (Simon, 1962, p. 468). Individual members of the elite coalition not only interact with each other but also with members of other coalitions (as is the case in intra-elite contests). An elite coalition, in a top-down analysis, is a sub-system nested within—and an integral part of—a national elite system that is itself a sub-system nested within the political economy, together creating the complex whole. This is so even when the national system is characterized by low elite cohesion and barely institutionalized intra-elite conflicts (across different tiers, see Proposition 16). Short of system collapse, antagonistic interests face off with each other in the political economy's contest arenas where the outcomes enshrine their conflicting business model preferences in institutional change processes.

44 Recognizing the effects of this particular negative externality, i.e., the social costs are not paid by the originators of the problem (a transfer-COST), a knowledge elite, the Wolfson Institute of Population Health at Queen Mary University of London, is "successfully working to reach a consensus with the food industry [the elite business model principals] and Government over the harmful effects of a high sugar diet, and bring about a reduction in the amount of sugar in processed foods". See: www.actiononsugar.org.

3.2.2 Proposition 16: The elite system operates on a multi-tier set of checks and balances

It has been shown in Proposition 15 that elite business model leadership requires that the three types of elites in a coalition (business, political, and knowledge) work in concert to generate residual income. At the same time, different coalitions compete with each other for advantage in the political economy. The Keystone XL project, referenced earlier, now serves as a case study for how intra-elite coalition competition dynamics play out, setting the stage for an extension of checks and balances theory. Cancelled on the Biden Administration's very first day in office, the constituent members of the winning and losing elite coalitions of the Keystone XL presidential ruling are outlined in Table 3.1.

Table 3.1: Keystone XL intra-elite contest with winning and losing elite coalitions and their constituent business, political, and knowledge elites.

Winning elite coalition	**Losing elite coalition**
Business elite coalition members	
– Oil-by-rail. Includes Berkshire Hathaway Inc.'s subsidiary, Burlington Northern Santa Fe (BNSF) Railway Co., which has the capability to haul Canadian oil to the US by rail (Efstathiou, 2012). "US energy expert Anas Alhajji posted on Twitter: 'With rail, money goes to the richest of the rich, who happen to be large donors and supporters of Obama/Biden'" (Staples, 2021). – Middle East oil suppliers. The *Edmonton Journal* winning coalition analysis identifies: "Dictator oil producers: Winners. Along with oil-by-rail, Texas will tanker in more oil. 'Middle Eastern heavy crude grades win in this situation', said Montreal energy analyst, Tracy Shuchart of Capital Benoit" (Staples, 2021).	– The pipeline's promoter. Calgary's TC Energy Corp. – Labor unions. Teamsters General President Jim Hoffa issued the statement: "The Teamsters strongly oppose yesterday's decision, and we would urge the administration to reconsider it. This executive order doesn't just affect US Teamsters; it hurts our Canadian brothers and sisters as well who work on this project. It will reduce good-paying union jobs that allow workers to provide a middle-class standard of living to their families" (Hoffa, 2021). – The US oil industry. US firms associated with the construction and operation of the pipeline.
Political elite coalition members	
– The Biden Administration. – The US Democratic Party. – The Rosebud Sioux Tribe and the Fort Belknap Indian Community. Indian tribes filed the lawsuit Rosebud Sioux Tribe v. Dep't of Interior, No. CV-20-109-GF-BMM-JTJ (D. Mont.) (Harvard Environmental and Energy Law Program, 2021).	– The liberal federal government of Canada under Prime Minister Justin Trudeau. – The Trump Administration. – The US Republican Party. – The Government of Alberta. Made an investment of C$ 1.5 billion to jump start pipeline construction (Gibillini, 2020).

Table 3.1 (continued)

Winning elite coalition	Losing elite coalition
Knowledge elite coalition members	
– A majority of the US environmental movement. – Academic platforms. Includes the Harvard Law School's Environmental and Energy Law Program that provided a voice to the opponents of Keystone XL focusing on "the construction's impact on wildlife. The pipeline's route and associated power lines would span the majority of endangered whooping cranes' southern migration route to Texas from Canada. It would also cross the remaining habitats of other threatened species such as piping plovers, sage grouse, and swift fox. The pipeline's route crosses over 50 streams, increasing the risk that oil spills would affect pallid sturgeon habitats".	– *The Wall Street Journal*. Promotes the jobs narrative evident from its editorial board headline: "Biden's Keystone Pipeline Kill: On his first day he insults Canada and ends thousands of jobs" (*The Wall Street Journal* Editorial Board, 2021) – *Edmonton Journal*. Articulates a narrative of localism and value for non-elites: "Losers: Albertans. The pipeline would have created good jobs, taxes and higher oil prices" (Staples, 2021).

Table 3.1 illustrates how two elite coalitions, each with its members sorted by elite type and gravitationally connected by the elite business model, are in fierce competition with each other for their institutional change preferences. While the dynamics of intra-elite rivalries can compromise elite system cohesion, institutionalized contests are posited in this elite theory to show the strength of a political economy, irrespective of which side's business models create more value. A priority for human and economic development is an elite separation of powers that is characterized by open, intense, but civil competition between elite coalitions. Under this premise, the previously referenced current winning streak of US Big Tech in almost all of the material contest arenas of Western political economies might at some time in the future reverse because of rules-based intra-elite competition. After all, America's elite system since the Civil War has been characterized by fierce intra-elite contests, extractive business models that become diluted by inclusive institutional change instigated by emergent elites, as well as incumbents on the wane that regroup to fight another day by transforming their business models (see AT&T, which despite its breakup, remains a potent force in telecommunications and employs over 200,000 people). At present, the settlement of the 'tap-and-go' antitrust probe of Apple by the EU (Espinoza, 2024b), the coalition of 33 US states suing Meta Platforms for "addictive features" that are ushering in "a mental health crisis" (Wilowski, 2023), or "tech antitrust crusader" Lina Khan's FTC (see Hatmaker, 2021) seem unlikely harbingers of decisive elite business model rule changes. Yet it is not unconceivable that America's elite circulation dynamics and multi-tier set of checks and balances eventually give rise to transformational elite and elite system leadership. Should the opposite scenario transpire, the absence of authentic intra-elite competition and the subsequent retardation of

elite circulation velocity would signal—to repurpose Fukuyama's (1992) concept—the beginning of the 'end of history' for America.

Intra-elite contests pave the way for elite circulation and replacement and play out in the three tiers of intra-elite checks and balances that ought to forge and characterize every elite system. Figure 3.7 depicts The Three-tier Set of Intra-elite Checks and Balances: 'within-arena' ('Tier 1'); 'across-arena' ('Tier 2'); and 'within-system' ('Tier 3'). The resulting seven intra-elite power relations are later discussed in detail (see Table 3.2). Conceived on the basis of the three elite types (business, political, and knowledge), The Seven Intra-elite Power Relations and The Three-tier Set of Intra-elite Checks and Balances that mediate them are at the core of the ETED's conception of a separation of powers in the political economy. Although the normative purpose of this conception is the same as Montesquieu's tripartite separation of the political realm, or Madison's federal Constitution, it is evidently a more extensive analytical tool. When applied to elite agency, the diverse relationships described (both when in or out of balance) point to the value creation and extractive transfer possibilities ensuing from intra-elite contests

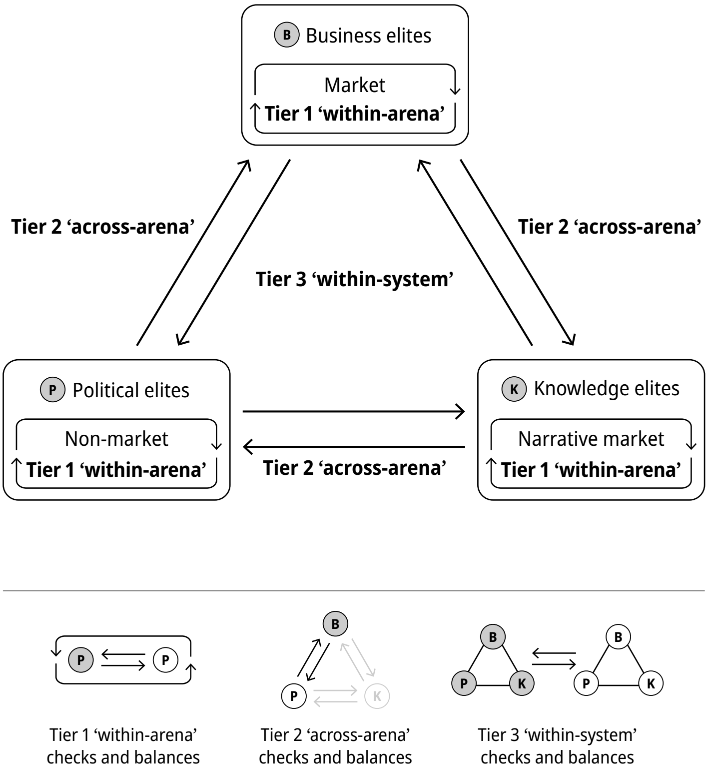

Figure 3.7: The Three-tier Set of Intra-elite Checks and Balances in the elite separation of powers.

and hence provide an expedient framework to anticipate outcomes in human and economic development.

There are three central tiers of intra-elite checks and balances in the separation of powers theory of the ETED (note that two additional tiers moored to the core elite coalition and foreign coalitions are later formulated, see Figure A5.11b). Tier 3 ‘within-system’ checks and balances see the highest impact contests as the business models of different elite coalitions directly vie for residual income streams and institutional advantage. At the highest analytical level, the Corn Laws or Keystone XL examples already presented illustrate how Tier 3 ‘within-system’ checks and balances between rival elite coalitions play out.

The elite separation of powers next materializes in ‘across-arena’ Tier 2 checks and balances. The different elite types—business, political, and knowledge—balance each other across the market, non-market, and narrative market arenas with their respective ‘money’, ‘might’, and ‘mind’ power endowments. To illustrate this, we can again reference the example of the revocation of the Corn Laws in 1846: Prime Minister Sir Robert Peel, with parliamentary support (political elites), leveraged Ricardo’s (1817/1999) free trade narrative (knowledge elites) to the benefit of Manchester industrialists (winning business elites) and to the detriment of large landholders and their protected grain elite business model (losing business elites). While the two coalitions were competing ‘within-system’ (Tier 3), the key to the outcome was the dynamic English Tier 2 ‘across-arena’ checks and balances. That is, the checks operating in the power relations that balance knowledge elites against both business and political elites. This balance, essential for sustainable value creation, is enabled by intra-elite contest rules such as the all-important freedom of speech, lucidly articulated in the *Universal Declaration of Human Rights*.[45] The following passage describes business elites teaming up with vocal knowledge elites beyond David Ricardo to align with the interests of non-elites that through “agitation” led the march to an inclusive victory over the established political elites:

> In the late (eighteen hundred) thirties and early forties, manufacturers in Manchester founded an Anti-Corn Law League to move the whole country for their repeal. They poured into that League the wealth which the Industrial Revolution had brought, and the force and ability that had produced it. They gained as leader Richard Cobden, one of the most effective economic controversialists of that day, and recruited John Bright, one of its greatest orators, and they developed an agitation which in its mixture of violence of language and piety of sentiment, middle-class leadership and popular organization, was a portent in our history. (Clark, 1951, p. 2)

45 Article 19 reads: “Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers”. See: https://www.un.org/en/about-us/universal-declaration-of-human-rights

Finally, Tier 1 checks and balances are those that occur ‘within-arena’. Here, in each of the three contest arenas, same-type (business, political, or knowledge) elites, some of which are established and some of which are emerging, contend with each other. In the market arena, rival firms evidently vie for customers’ willingness to pay. In narrative markets, different ideas, religious doctrines, and media (e.g., CNN vs Fox News vs Tucker Carlson) fiercely compete with each other as they seek power over ‘mind’, the cognitive and affective bandwidth of elites and non-elites alike. Narratives may well achieve domination, pausing competition and stymieing the checks and balances in the power domain of society that then ceases to contribute to the separation of power dynamics. In Tier 1 within-arena contests, rivalries evolve and alliances are formed and reconstituted on the logic of elite coalitions (which also give meaning to competitions in Tiers 2 and 3). At times, the alliances within a coalition seem *contra natura*; in the political non-market arena, Prime Minister Peel was supported by the liberal Whigs in Parliament and opposed by his own conservative Tory Party.[46] The overview of the multi-tier set of checks and balances that manifested around the Corn Laws is synopsized in Figure A5.11.

The Tier 1 ‘within-arena’ checks and balances most heavily institutionalized and emphasized in constitutional democracies are the executive, legislative, and judicial branches of the political non-market arena. These are also the focus of the separation of powers theory of Montesquieu (1748/1949). However, on paper, nothing prevents a system of political checks and balances to be split along alternative lines, for instance, between the emperor, the Inner Court’s (*Nei Ting*) eunuchs, and the mandarinate in Imperial China. In the People’s Republic of China of today, the checks and balances of the political system include an array of elements and constituencies: the CPC front door (talent identification and nurturing); the CPC’s back door (anti-corruption); the dual-leadership setup (party and state administration); “the subgroups in the decision-making circle”; the judicial system; the United Front (“democratic parties”); and the civil affairs offices.[47] In modern Japan, the system’s checks and balances occur between Nagatachô, the location of the Diet and its *zokugiin* clique members, and Kasumigaseki, the location of the ministries and the ‘old boy’ *amakudari* networks of ministerial bureaucrats (Schmidt, 2004, pp. 79-81). Political elites are important given their direct hand in institutional change processes, but the role of political ‘within-arena’ contests in the overall schema of the elite system should not be overly emphasized. Today, Montesquieu’s checks and balances across government branches or Madison’s federal Constitution (1787/1977) to balance ‘factions’, while still being relevant, are inadequate frameworks for a separation of powers that prevents extraction by the sophisticated elite business models associated with 21st century technologies.

46 Prime Minister Peel’s leadership availed itself of the ‘inextinguishable value creation option of elites’ to cause business model transformation (see Section 2.2.1 and Figure A5.4c), in this case by repealing an extractive law.
47 Based on communication with Professor Ray Di, 18th March, 2021.

Proposition 18 will set forth the notion that the key driver of institutional change is intra-elite contests. It is hypothesized that the more competitive that intra-elite power relations are, the lower the bargaining power differentials found in society and the greater the likelihood that value creation elite business models will, along with supporting institutions and narratives, emerge from 'knowledge' and prevail in the economy. The analytical and normative emphasis is therefore not on institutional quality (the perspective of a diverse research stream that includes works from Jung, 2020, or Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2004), but on the sources of accumulated institutional change: the diversity, quantity, and sophistication of intra-elite contests. The premise for these contests is that they should be numerous and carried out across all of The Seven Intra-elite Power Relations (see Table 3.2) derived from The Three-tier Set of Intra-elite Checks and Balances discussed in this sub-section (Figure 3.7). A comprehensive and functioning separation of powers is in turn enabled by adherence to intra-elite contest rules and elite system cohesion (as detailed in Figure 5.2 on the dialectical relationship between elite cohesion and the separation of powers as a precondition for development). Winners that thus emerge from robust intra-elite contests held under a comprehensive system of checks and balances are more likely to be operating at high value creation positions on the 'value spectrum' (see Figures 2.10, 2.11, and SVC measurements like the VCp, VCr, or 360-VCz).

3.2.3 Proposition 17: The national elite system is situated at the meso-level

This work has proposed that elite coalitions are the constitutive components of a national elite system (Proposition 15). This begs the question of how the elite system should be theoretically described in relation to the macro-level political economy system. The system of national elites fits Dopfer's meso-level proposal (2012, p. 145) because it "explain[s] generic structure and processes" in the economy, and it is both an idea (i.e., the aggregate of individual elite agency) as well as an observable reality (i.e., elites in the system run residual income generating elite business models, literally "matter-energy that is actualized in time and space"). The key consideration is that the meso-level "is made of complex other things (micro) and is an element in higher order things (macro) [. . .] in the specific sense of identifying and conceptualizing the dynamical building blocks of an economic system" (Dopfer, Foster, & Potts, 2004, p. 268). The micro-level 'complex other things' are elite coalitions (sub-systems of the elite system, as discussed in Section 3.2.1 and visualized in Figure 3.6), activated through elite business models and their associated leadership. The elite system is itself a sub-system of the macro-level political economy system. In this theory, the elite system is posited to be the critical meso-level sub-system able to shape the political economy system's outcomes and performance in a far more profound way than other meso-level sub-systems (such as innovation or financial systems).

In short, the ETED holds that elites constitute a system (in the sense used by Von Bertalanffy, 1969/2003, 1972) that is coherent (in its discrete degrees of cohesion), and that the elite system and its emergent properties (see Anderson, 1972; O'Connor, 1994) such as inequality or this work's emphasis on elite quality, is theoretically apt for consideration at the meso-level as a sub-system of the macro-level political economy system. The connections between analytical levels are the scientifically relevant "emergent phenomena", understood by Bedau as "somehow constituted by, and generated from, underlying processes" while also "somehow autonomous" from these (1997, p. 375). Chalmers (2006) points out that "a high-level phenomenon is *strongly emergent* with respect to a low-level domain when the high-level phenomenon arises from the low-level domain, but truths concerning that phenomenon are not *deducible* even in principle from truths in the low-level domain". Such a clear-cut ontological partition between the macro- meso- and micro-levels would imply that elite quality is not reducible to micro-level elite business models and that the macro-level political economy is unexplainable by the elite system's characteristics. This can "raise the specter of illegitimately getting something from nothing" (Bedau, 1997, p. 376). With "weak emergence" on the other hand, "the high-level phenomenon arises from the low-level domain, but truths concerning that phenomenon are *unexpected* given the principles governing the low-level domain" (Chalmers, 2006). In other words, meso-level emergent properties like elite quality arise from micro-level constituent parts like elite business models and can be explained, understood, and measured, even when they cannot be predicted.

Figure 3.8 describes the micro- meso- and macro-levels of analysis for this theory and situates elite coalitions at the conceptual center. It also depicts the relationship between the three levels, the meso-level having the all-important intermediate transmission mechanism function that connects the micro to the macro.

The establishment of the elite system as a meso-level sub-system of the political economy stresses the latter's complexity. The national elite system has been theoretically anchored and contextualized as a conceptual element in this section with the aim of better understanding the relationship between its emergent states (e.g., social order access, elite quality, economic and human development) and the political economy. As the ETED becomes further grounded in the terrain of systems theory, the logic of complex adaptive systems comes to the fore. McDaniel, Lanham and Anderson (2009, p. 4) here identify "five key characteristics" from the organizational studies literature (Beinhocker, 2006; Cilliers, 1998; Maguire, McKelvey, Mirabeau, & Oztas, 2006; Waldrop, 1992): "(a) diverse agents that learn, (b) nonlinear interdependencies, (c) self-organization, (d) emergence, and (e) coevolution". Evolutionary approaches can be seen as constituting "a generic framework for understanding social change", specifically one that "directs our attention to the processes of variation, selection, retention, and struggle that jointly produce patterned change in evolving systems" (Aldrich, 1979/2008, pp. xv–xvi), including those described by power-law distributions that account for the rise of elite business models and how they circulate.

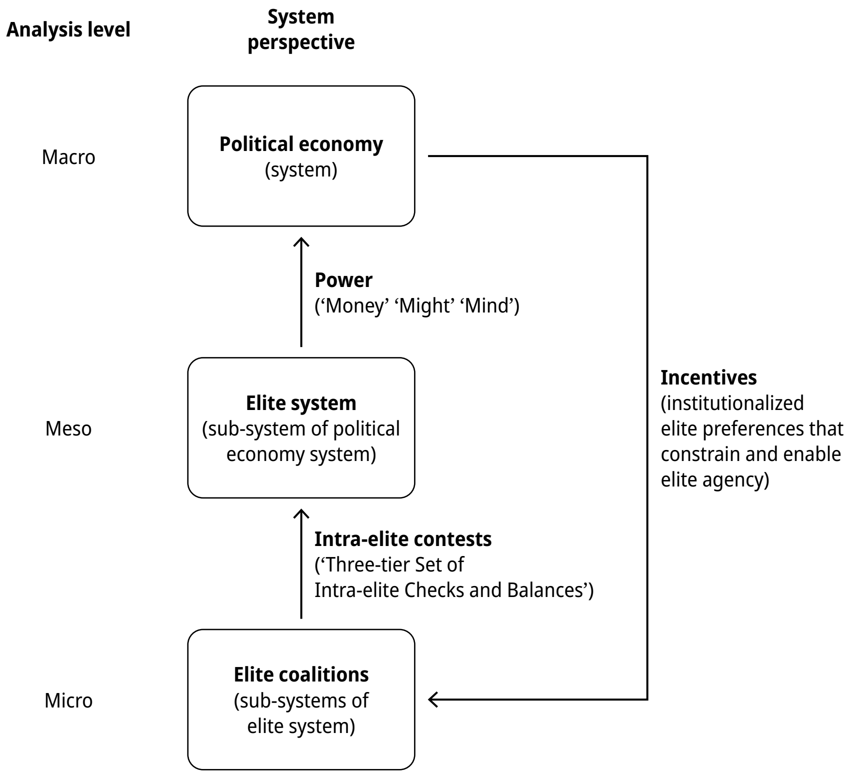

Figure 3.8: The meso-level elite system: The transition mechanism between the micro- and macro-levels.

This inquiry's focus on the meso-level accentuates chaos, initial states not determining future states, (weak) emergence and evolution, and the breakdown of periodicity as the non-repeating patterns of one sustainable value creation national state morphs into the next (see the acumens of Von Bertalanffy, 1969/2003; Parsons, 1951/1991; Hayek, 1964/1967; Simon, 1962; Anderson, 1972; Gleick, 1987; O'Connor, 1994). Nonlinear interactions result in learning by agents giving rise to "self-organization" and "coevolution" (Camazine, Deneuborg, Franks, Sneyd, Theraulaz, & Bonabeau, 2001, as cited in McDaniel, Lanham, & Anderson, 2009, p. 3) and are the medium in which intra-elite contests evolve, thereby defining the properties of the autonomous elite system. Another notable viewpoint is important when looking at complex elite systems—fractal patterns:

> A fractal is a object [sic] in space that has an ever larger number of ever smaller pieces. It is self-similar, meaning that the smaller pieces are reduced copies of the larger pieces. For some fractals, the smaller pieces are exact copies of the larger pieces. For most fractals in nature, the smaller pieces are kind-of-like the larger pieces. A tree is such a fractal. It has an ever larger number of ever smaller branches. A fractal can also be a process in time. (Liebovitch & Scheurle, 2000, p. 34)

From an elite business model perspective, the political economy system is fractal—like other systems in nature (see Mandelbrot, 1989; Brown, Gupta, Li, Milne, Restrepo, & West, 2002)—especially where it counts: the spaces where value is created and transferred. While the core coalition holds 'the extraordinary lever' (see Figures 8.1, A5.3a, and A5.3b), elite agency functions at lesser levers in an analogous manner, upholding bargaining power differentials and residual income logic across every nook and cranny of the economy (see the implications in Sections 7.1.4 or 7.1.5). Inequality can reflect such patterns (see Cozzi & Privileggi, 2009). Econometric models of the economy (see Section 7.1.1), particularly when rendered as games (see Figure set A5.14), must aim to describe the fractal nature of the economic landscape and its business spaces, limits, and the micro to macro transmission mechanisms of the system's emerging properties, as agents at different scales create and transfer value across principal-stakeholder relationships. Power law distributions in society, as the statistical signatures of fractality, are adept at representing the skewed distributions in society such as the power endowments of the political economy (the most relevant manifestation of which is elite agency).

As a final point, the phenomenological uncertainty associated with the understanding of complex adaptive systems means that when examining the elite system one must (as would also be the case with financial markets, policy networks, or health care organizations) "anticipate, but not try to predict, change [. . .] The focus is on preparation for inevitable surprise rather than prediction of events" (McDaniel, Lanham, & Anderson, 2009, p. 5). That is, insights into economic development are comparatively more feasible when the objective is to ascertain meso-level elite quality, the emergent aggregate sustainable value creation of elite business models. Much less predictable is how to determine *who* at the micro-level—the specific disaggregated individuals, firms, and models—will attain or lose the 'extraordinary lever' in a fractal field and thus a residual income position in the overall elite system as a result of intra-elite contests. Here, the exercise of leadership, in all its varieties and despite all of its vagaries, will be shown to be the key insight and determinant (see Section 7.2.4 or the Epilogue to this book), even if this variable exists chiefly in retrospect to the observer. While transformational leadership in pursuit of sustainable value creation cannot be predicted at the micro-level, its appearance can be incentivized at the meso-level to contribute to macro-level economic and human development.

3.3 Propositions for the logic of intra-elite contests in the elite system

Since intra-elite contests are central to the ETED, they must be viewed from all vantage points. This section first completes the previous discussion on elite contests as the primary shaper of institutions (Proposition 18). Then, the inquiry transitions to how non-elite participation in intra-elite contests might constrain value extraction (Proposition 19). The final proposition reaffirms the importance of a sophisticated elite separation of powers, not just for economic growth, but also to garner inclusive political economy outcomes for non-elites (Proposition 20).

3.3.1 Proposition 18: Elites shape institutions primarily through intra-elite contests

From Marxist class struggle to anti-colonialist discourse (e.g., Said, 1993), but also in the fringe anti-elite intellectual positions taken by the likes of Steve Bannon (Guilford & Sonnad, 2017), non-elite vs elite struggle often takes center stage in the analysis of political economy contests. Morck and Yeung (2004, p. 392) describe "political rent seeking" by elite families who benefit in Olsonian fashion from the "high level of trust between members of a small elite" and collude to the detriment of the non-elites. Their evidence backs the notion of "political rent seeking as a cooperative game among members of the elite and a non-cooperative game between the elite and the rest of society". At the same time, Acemoglu conceives a non-elite middle-class struggle against elites as follows: "middle-class profits reduce the elite's political power and endanger their future rents. The elite will then want to tax the middle class in order to impoverish them and consolidate their political power" (2006, pp. 516-517).[48] As the authors cited in this paragraph imply, elite business models often rely on value transfer-IN from non-elite stakeholders. However, what if the institutions that enable value appropriation are not the result of non-elite vs elite (including the middle-class) struggle, but rather the outcome of intra-elite contests? It has also been lucidly argued that "features of a nation's mass culture have a strong imprint on elite characteristics" and are "a powerful social force in shaping the quality of elites" (Welzel, 2002, p. 275). One must be vigilant here against the non-elite rule fallacy ('people power') as it muddies understanding of institutional change, of the sustainable value creation impact of non-elite culture, and of the fact that inclusive transformations are generally brought about by elite coalitions (winning contests for inclusive institutional change against their more extractive peers). Proof for such a conjecture would come from evidence that institutions are primarily designed for intra-elite contests.

Forsdyke's study of ancient Greece (2005) relies on theories from anthropology to argue that everything from sanctuaries and re-settlement to laws and citizen armies, even state formation itself, is the result of intra-elite competition. So are wars. Taking

48 The middle-class, like all socio-economic non-elite categories, is not a coherent whole but split into many specific non-elite groupings. The relevant agency options of each of these groups are limited and based on the possibilities to tilt the balance of intra-elite contests (a dynamic detailed in Section 8.1.3; see Figure 8.2 on the political options for non-elite groups to advance their interests and overcome the 'low non-elite cohesion' problem). The relevant question in political economy analysis is *which* non-elite groups ally with *which* elite coalitions to extract from *which* other non-elite groups. Such analyses must transcend the general elite vs non-elite (or elite vs middle-class) dichotomy, even in light of non-elite extraction.

this assertion one step further and in qualified contrast to the non-elite vs elite struggle model, the key political economy contests affecting institutional change that are relevant to the welfare of non-elites take place between elites (see Table 3.2). Intra-elite competition is usually very visible and provides much inspiring material for the humanities. For example, the war between Octavian and Antony in the Shakespearean tragedy that narrates an epic conflict ending at the Battle of Actium and Cleopatra's suicide ultimately led to the transition from republic to empire, a dramatic instance of institutional change. Yet such heady narratives often obfuscate the more sober central point. Whether "intra-elite rivalry" is fueled by slush funds in Indonesia (Dick & Mulholland, 2011), the highly codified but often violent Archaic Athens intra-elite competition, or elections in contemporary America, the structure for this inquiry is that beneath intra-elite rivalry and contests lie disparate elite business model interests that operate at discrete degrees of sustainable value creation, and that these differences hold the keys for economic development.

Intra-elite contests become relevant for non-elite interests (and economic development) when the sustainable value creation of contesting elite business models are dissimilar. After Actium, even though Octavian became Caesar Augustus, the formidable builder of empire and the *Pax Romana*, his elite business model of conquer and tax may have been more secure and institutionalized but was essentially no different to that of his rivals for the laurel wreath. In other conflicts however, the extraction from non-elites by the business models of the contending parties markedly diverge. For example, compared to its opponent in the American Revolutionary War, Great Britain clearly fielded the more extractive model (to defray the costs of the Seven Years War, London had implemented grating institutional changes like the Stamp Act of 1765, or the Townshend Acts passed during 1767 and 1768).[49]

Institutions are predominantly an expression of the outcomes of intra-elite contests rather than non-elite vs elite struggles. To suggest otherwise—e.g., that "you and I", non-elites, "are fully in charge" in the context of the institutional change necessary to control AI, as suggested by the technologist and thought leader Gawdat (2021)—is at best but another ingenuous manifestation of the non-elite rule fallacy. The institutions

49 It is noteworthy that elites and non-elites that cohere on account of sharing the same nationality, narrative, or geographical origin—even after independence struggles with foreign powers—does not necessary associate with comparatively less transfer-IN from non-elites. Foreign elites, for instance, might rely more on elite/non-elite cooperative arrangements than the new local elites that replace them. In the case of Eritrea, many who fought for freedom in the long and painful Eritrean War of Independence (1961–1991) wonder whether the business models of today's native elites are truly less extractive and create more value than those that were run by Ethiopia as foreign occupying power. The general point is that empires can notionally be less extractive than the smaller polities or nation states that emerge in their wake, partially on account of maintaining narrower and less costly elite systems than those of successor local elites. It has been argued, not without controversy, that extraction from non-elites by new post-imperial elites increased after the termination of the Spanish and Ottoman Empires (see the discussion of cross-border elite business models in Section 7.3.1 and 7.3.3).

of ancient Greece, as remains the case for any institutional arrangement today, were designed for the intra-elite contests that secure business model rules: "institutions and written law have been interpreted as unsystematic ad hoc arrangements designed to defuse conflict within the elite and to protect its position" (Hölkeskamp, 1992, as cited in Ma, 2016, p. 403). On the other hand, the lack of sophistication and recourse to violence in intra-elite contests is problematic for value creation and economic development. The earlier example involving the local residual income streams of Coca-Cola's international business in Libya demonstrates the problems associated with haphazard and non-institutionalized intra-elite contests. A Reuters' journalist sheds further light on this case based on access to Wikileaks cables:

> Then, on December 28, 2005—two weeks after the Tripoli plant began turning out locally-bottled batches of Coke—"two military cars carrying armed personnel without clear identification illegally broke into the facility, asked the employees to leave the premises and shut down the plant" [. . .]
>
> The US mission in Libya learned from other sources that the troops were loyal to Mutassim Gaddafi [. . .] According to the State Department cable, Mutassim bore a grudge against his brother [. . .] Sporadic violent incidents continued to erupt in the weeks after Mutassim's forces occupied the bottling plant. [. . .] The Libyan leader, according to the cable, "declined to get involved personally" yet urged plant owners to do "everything within (their) power to resolve the matter according to Libyan law." [. . .]
>
> The State Department cable describes the Coca-Cola conflict as a "case study in the involvement of Qadhafi (sic) family members directly influencing the flow, pace, and nature of economic activity. Family members squabble over personal financial interest with little regard to the possible impact on foreign investors or international public opinion." (Hosenball, 2011)

Various reasons might explain why elite systems underinvest in the rules and institutional arrangements of intra-elite contests. Some relate to overconfidence or shortsighted calculations of increased value appropriation possibilities if contests remain non-institutionalized. Regardless, in the absence or low quality of institutions, intra-elite contests escalate and become personal, unrestrained, and bring increased dangers and uncertainty, often also to the winning elites. Moreover, there is always the possibility that fractures in the elite system cause society itself to fragment and descend into violent conflict centered on elite personalities (clientelism in its basic form) or narratives (ideological, religious, or based on identity). Many coalitions in the elite system lose (think of purges in authoritarian systems or of Roman proscriptions), while in addition to extraction, the collateral damage for non-elites is often catastrophic (think of contemporary Lebanon or of any civil war).

Of particular interest to economic development are the conditions that result in the setting of intra-elite contest rules to establish institutionalized and therefore more restrained forms of intra-elite contests. That is, intra-elite contest rule regimes—whether in 19^{th} century Manchester or in 21^{st} century Shenzhen—where high elite circulation velocity and the rapid adjustment of business model rules incentivize emergent players to operate at increasingly higher degrees of value creation (e.g., VCr) and thus attain elite status. Succession planning forms a part of such rules and is particularly relevant in core coalitions (Section 8.1.2), even more so “in any personal dictatorship or tyranny [where] one thing is certain: some day there will be a succession crisis” (Rush, 1962, p. 259). Desirable intra-elite contest rules also include those that facilitate alliances between emergent and incumbent elite coalitions and result in win-win outcomes. For instance, President Reagan’s ‘Star Wars’ initiative saw the military-industrial complex embrace Silicon Valley via the Strategic Defense Initiative anti-ballistic missile program. Even better for development are cases where emerging elites advance without the need for alliances or offering a cut to the establishment, manage to effect institutional change, and eventually appropriate the growth portions of the enlarged pie as well as parts of the slices held previously by less innovative incumbents. One might consider to what degree the contests between Tesla and traditional automotive manufacturers, between Amazon and traditional retailers, or between Netflix, Amazon (who acquired MGM in 2021) and the Hollywood studios fit such a pattern.

Intra-elite contests might intensify and habitually de-institutionalize in situations where the overall economic pie shrinks and dominant coalitions exhibit a bias towards retaining the ‘same size of the slice’ for themselves. The incumbent vs incumbent elite scenario is especially vicious when it becomes clear that not all elite business models and players can survive a crisis. Johnson (2009) discusses this in the context of IMF rescue packages where loan facilities are limited and only a fraction of a country’s elite models can possibly be saved, leaving those who don’t receive assistance to go under. The optimal decision criterion for the core elite coalition and the enlightened position of independent political and knowledge elites is often to downsize or selectively cull an elite system where the value creation engine is stalling, thus preempting decades of stagnation or mayhem down the road. In such instances, the institutionalized approach is to support elite coalitions with business models that possess the highest levels of value creation (measured by VCp, VCr, or 360-VCz) and decisively weed out all of those that don’t make the cut, as was done in the 1997-98 Korean financial crisis (see Kim, 2006)[50]. This general principle, reflected in the normative aspects of this work (e.g., the constraints in A Transfer Constraints Framework for policy formulation, Table 8.2), becomes all the more relevant in deep economic downturns, armed conflicts, pandemics, or other black swan events.

Underlying the feasibility of constructive responses by the elite system, whether in normal times or times of crisis, are institutionalized intra-elite contest rules that include a robust elite separation of powers together with elite system cohesion (see Section 5.3.3, Figure 5.2). Both factors, the former being paradoxically the cause of the latter, make intra-elite contest rules resistant to institutional decay. After all, intra-elite contests may

50 How severe the prescriptive cuts ought to be is shown by the example of Korean merchant banks where 22 licenses were revoked and whose sum “was reduced from 30 at the end of 1997 to only three by June 2003” (Ahn & Cha, 2004, as cited in Kim, 2006, p. 15).

also bring about de-institutionalization and, alongside it, the escalation of value transfers, especially when violence is a factor. Nothing ushers in national decline (and non-elite suffering) and exposes a country to unrest or extraction (also by foreign elites, see the discussion on cross-border elite business models in Section 7.3) like a polarized or fractionalized elite system reneging on its intra-elite contest rules.

3.3.2 Proposition 19: Non-elite agency can constrain value extraction through participation in intra-elite contests

> Kant famously denied the right to revolution, whereas Marx thought revolution so necessary that the normative question concerning its acceptability did not even bear direct asking. (Ypi, 2014, p. 263)

Residual-income-maximizing elites incessantly develop novel elite business models and pursue institutional change. Problems for non-elites—and for development—arise when new models are based on increased value extraction from those engaged in first-order productive activities (as is the case with monopolies, monopsonies, wars, subsidies, negative interest rates, inflation, particular regulations, or onerous taxation rates, see Table 2.3). Value transfer models, Clark's economic "friction" (1899/1908) facilitated by power differentials or "force" (1903), preempt non-elites from appropriating the value they have created through their business models as workers, business owners, farmers, the professional class, and other roles. What responses to extractive practices are then in their best interests? To the ETED, non-elite interests are best served by the full or significant appropriation of value created, i.e., minimal extractive value transfers. The individual non-elite responses to extraction are deemed to be 'acceptance', 'exit', 'informality', and 'challenge' (as expanded upon in Section 5.2.3 and outlined in Table 5.1). At the political aggregate level, the options for non-elites to advance their interests exist in two broad categories: 'confrontation', specifically direct 'non-elite vs elite struggle', and the more constructive 'cooperation', which includes options for the passive 'trust in elites' and the active 'tactical' and 'strategic participation' in intra-elite contests (as expanded upon in Section 8.1.3 and detailed in Figure 8.2).

When individual 'challenge' responses swell into organized political 'non-elite vs elite struggle', the violence can be either sporadic or of continued revolutionary ferocity. The legacy of such confrontation and its impact on development requires that this option be well understood in both theoretical and practical terms. The final paragraph of the *Manifesto of the Communist Party* exhorts the "forcible overthrow of all existing social conditions. Let the ruling classes tremble at the Communist revolution"; for Marx and Engels, institutional change is "to be attained through recourse to violence" (Schaff, 1973, p. 263). Earlier, Hegel[51] had presciently "imagined that the no-

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51 Marx, both profoundly influenced by and fervidly opposed to Hegel (1807/2018; 1812/2010), had advocated for the physical destruction of elites and even for the terror that Hegel critically disputed.

tion of an absolutely free will as conceived by Rousseau was responsible both for inaugurating the French Revolution in its overthrow of the ancien regime [sic] and subsequently for producing the Terror" (Wokler, 1998, p. 35). Lenin's pragmatic take on Marxist ideology[52] centered on professional revolutionaries engaging in forceful struggle to bring about a dictatorship of the proletariat.

Non-elite "misery and squalor" (as in Pigou, 1920/1932) has always been evidently real, but so is a widely recognized fact: "Revolt is only one of several paths that may be taken by the oppressed" (Goldstone, 1982, p. 187). The ETED argues that the path of revolutionary or social violence is counterproductive because it escalates uncontrollably, is unlikely to succeed, destroys 'knowledge', and mostly results in regressive elite circulation (see Section 1.3.2). The effectiveness of violence in reversing extractive models and fostering inclusive institutional change is, however, often viewed as an empirical question. Acemoglu and Robinson (2006) see constitutional change towards lesser extraction (democracy) on the back of threats of non-elite violence. So, what if violence is the only means to compel elites to reduce extraction and, for instance, cast aside their 'same size of the slice' bias? Is the union of political liberation frameworks with the noble instincts of "people's bandits" such as Salvatore Giuliani (Hobsbawm, 1969/2000) the progressive way forward for societies? While violence, or even its insinuation, will make a complex system more uncertain and chaotic, the consequentialist point of sincere revolutionaries is that the suffering it brings is a price worth paying to attain the political power necessary for a more inclusive society.

The first problem with this argument is that non-elites usually end up losing such conflicts at great personal cost. This is because they generally have limited coordination capacity and are capable of organized violence only non-strategically, sporadically, or in moments of crisis. On the opposing side, the incumbency advantage of 'the extraordinary lever' is reflected by elites that are specialists in effectively protecting their models in all the three contest arenas of the political economy. Moreover, the costs of a violent challenge are primarily and poignantly borne by non-elites because the struggle reduces the size of the total pie more than the slices possessed by elites. The uneven reduction of residual incomes in times of trouble favors elites in such contests and ought to be a strategic consideration in non-elite vs elite struggle. With conflict, non-elite business models are the first to dry up or generate lower incomes. In sum, non-elites can usually ill-afford protracted political conflict and so most struggles breed misery and failure. Narratives can induce non-elites to willingly engage in

Marx was Editor-in-Chief of the revolutionary newspaper *Neue Rheinische Zeitung* (1849/1994, p. 1) that, in its final issue in May 1849, proclaimed: "We have no compassion and we ask no compassion from you. When our turn comes, we shall not make excuses for the terror."

52 Referring to Engels, Lenin writes (1918, p. 15) that: "the 'special coercive force' for the suppression of the proletariat by the bourgeoisie, of millions of working people by handfuls of the rich, must be replaced by a 'special coercive force' for the suppression of the bourgeoisie by the proletariat (the dictatorship of the proletariat)".

radical sacrifice, self-extraction, and terror (as, for example, in the case of Ho Chi Minh's Viet Minh and Viet Cong and their nationalist non-elite challenges against various incumbent elite coalitions and their respective Japanese, French, and ultimately, American partners).

Revolutionary movements often edge forward on pyrrhic victories while the decisive revolutionary triumph never arrives. The rare historical overthrows of an elite system show that besides luck, timing and decisive action is essential. If non-elites have not managed to cause elite replacement through successes on the battlefield, they will be outmaneuvered in any subsequent deals. At the height of the Peasant's Revolt of 1381, King Richard II agreed to the rebels' charters of freedom that abolished serfdom and conceded free land, yet reneged as soon as he had Wat Tyler and other leaders killed. Once the opportunity for violence passes and non-elites have failed to accumulate the decisive power endowments, what are the incentives for elites to honor promises for institutional change or reform and phase out extractive business models? Sometimes, elites may tactically acquiesce to reforms to divide and weaken non-elite resistance and defuse the political struggle. In other cases, even in the midst of societal upheavals, cool-headed elites opportunistically ride on the back of non-elite movements and incorporate non-elite narratives to strengthen their own positions against rivals in intra-elite contests. This chimes with Blok's criticism that "Hobsbawm's comparative treatment of banditry over-emphasizes the element of social protest and obscures the significance of the links which bandits maintain with established power-holders" (1972, p. 502). Either way, once non-elite coordination capacity loses momentum and the threat is over, or the intra-elite contest is resolved, many elite playbooks will discard self-restraint and double down on value appropriation and extractive repression.

A second consideration that has already been implied is that violent confrontation may result in regressive elite circulation (Section 1.3.2). When sincere revolutions succeed, does "sham and illusion", as described by Milovan Djilas (see Section 1.3.1) invariably await, or are the new elites that emerge from the midst of non-elites able to run inclusive business models? On occasion, revolutions do end with positive outcomes for non-elites. While by no means costless, the American Revolution is an example of new elites emerging from revolutionary processes that then went on to implement less extractive elite business models that were clearly beneficial to non-elites (though not all: Native Americans had good reason to ally with the British since the Proclamation of 1763 had banned colonist expansion west of the Appalachian Mountains). With successful violent revolutionary processes, history is remade along with society's cardinal narratives, but the key question remains: are the more inclusive models of the American republic an accurate representation of post-revolutionary business models?

The rural non-elite Maccabees revolt, started in 167 BC by Mattathias the Hasmonean, eventually replaced the yoke of Antiochus IV and the Seleucid line of despots. The French Revolution extinguished the *Ancien Régime* elite system and led to Emperor Napoleon I (1804-14/15), the Bourbon Restoration (1814-30), the July Revolution with Louis-Philippe's July Monarchy (1830-48), and ultimately consolidated the bourgeoise and its elite business models. Chairman Mao's communists ushered in New China and established a new elite system that rid the nation of its creative industrialists as well as the opium business model and extractive foreign powers, and whose progeny and successors in the 21st century have delivered comparatively high elite quality, especially if adjusted for GDP per capita (see Casas-Klett & Cozzi, 2023, p. 5), and might be on target to make China's economy the largest in the world in nominal terms. Every one of those long (taking decades to complete) revolutionary elite circulations—each consisting of a two-fold process of struggle to first consolidate power and then implement elite business models—saw untold extraction from non-elites. The Great Leap Forward and the Cultural Revolution led to famine and despondency; so did Robespierre's Committee of Public Safety and the Terror's program of revolutionary trials; while the destruction of Jewish Hellenized temple elites, including those represented by Menelaus, the notorious High Priest in Jerusalem, shattered valuable economic networks.

As with its precursors, the ultimate 20th century revolution appeared to have legitimacy in its aim to redress the fundamental value transfer inequities of imperial Russia. The Czarist elite system had been too sluggish in the transformation of its business models, finding its cohesion through an outdated narrative, lacking a robust separation of powers, and running intra-elite contests that led to perverse outcomes. For instance, the landed gentry sidelined Prime Minister Count Witte despite his success as Minister of Ways and Communications (making Russian railroads extremely efficient), and as a modernizing Minister of Finance, recognized by Alexander III as his most able minister. Another transformational member of the elite, Prime Minister Stolypin, who had succeeded in enacting land reform and drastically increasing the Empire's agricultural production, was likewise sidelined by the same elite system (he was assassinated in 1911). In France too, the *Ancien Régime* could have formed stronger links with the bourgeoise and incentivized their value creation models. Such failures meant that in both the French and Russian examples, the ever-latent and seldom actualized might of non-elites was unleashed through the coordination device of choice: the respective narratives of *liberté, égalité, fraternité* and "Peace, Land, Bread!"

Once victorious, revolutions face an impasse akin to that captured in the film *The Candidate* (Ritchie, 1972), and encapsulated in Robert Redford's closing line to his campaign manager after his election victory: "Marvin, what do we do now?" While the French and Russian revolutionaries might have had a blueprint of what to do, they also had the fatal bias that characterizes most winning non-elite movements: overly abstract narratives. When concrete, these narratives generally aim at redistribution, obviating practical incentives to foster first-order value creation activities such as agriculture, industry, or innovation. Equally absent are systematic and applied proposals to lift the productivity of capital, and so the new elites, unable to receive guidance from their narratives, are unlikely to implement superior value creation elite business models. Bastiat went as far as linking religion with plunder when stating that: “Theocracy diverts many energies toward childish or injurious ends” (1845/1996, p. 131). If the blatant extractive transfers of previous incumbent elites is discontinued then that is a positive, but it is only half the battle.

The origin of non-elite struggle against an elite system is usually discontent at being on the short end of abusive value transfer-OUT. Therefore, non-elites are susceptible participants in contests for the ‘mind’ and become attracted by narratives that promise to eliminate or limit the degree of extraction. Those that support such narratives, including the authors, seldom understand business, risk, or management and so, bereft of ‘knowledge’, commit the cardinal sin of obviating the underlying mechanisms of the extractive elite business model, including its value creation components. Instead, all energies are indiscriminately aimed at the demolition of the old system. This failure becomes painfully visible when the revolutionary elite takes over and its elite business models do not deliver the aspired for growth. Revolutionary narratives are, almost by design, destructive rather than constructive (Marxism included). Ignorant of the intricacies of elite business models, such narratives are rudimentary, unrealistic, and offer scant detail on meaningful elite business model transformation. The success of the system of ‘socialism with Chinese characteristics’ since the 1980s is due to it being more Chinese than theoretically Marxist.

But was not the French Revolution’s “momentous impact” across Europe inclusive as it dismantled “the legal and economic barriers that had protected the nobility, clergy, guilds, and urban oligarchies” (Acemoglu, Cantoni, Johnson, & Robinson, 2009)? Do “economies grow faster after coups and revolutions due to the destruction of existing special-interest organizations” as Heckelman and Whaples (2006, p. 36) ask? Are uprisings only a problem insofar that revolutionary narratives lack the components for elite business model transformation? Where such a deficit occurs, the new elites will likely end up adopting the business models of the system that they sought to vanquish. There are thus fundamental reasons for incoming elite coalitions being less effective value creators than their predecessors over longer horizons. Again, one explanation for failed post-revolutionary societies is that the knowledge elites of the new system are specialists in revolt and non-elite mobilization during the struggle phase, not in the mundane ‘knowledge’ (of the law, technology, finance, etc.) or the competitive processes associated with first-order productive activities. Once victorious, and given the personal risks that they undertook, the last thing on the minds of the new ruling class is the all-important development of a multi-tier set of checks and balances and intra-elite contest rules that are essential to foster the continuous ‘knowledge’ generation that enables value creation business models. Instead, the legacy of “violent struggle” is the increasingly stale and barren narrative used to secure elite cohesion and “authoritarian durability” in times of crisis, as explained by Levitsky and Way (2012) in the case of post-Cold War Africa. In other instances, as the phrase attributed to revolutionary leader Georges Danton, “La révolution dévore ses enfants"[53] shows, the violence used to affect the initial elite replacement trumps a separation of powers becoming the governance tool of choice for the new elite system.

Long after it is over, the original violent struggle phase still casts its long shadow, diminishing the likelihood that elite business models pursue value creation activities. Again, 'knowledge' is eroded and potential transformational leadership alienated, as is shown by Franck and Michalopoulos (2017) in their analysis of emigration following the French Revolution. On their own, the empowered newcomers will face an impossibly steep learning curve in developing sustainable value creation businesses at the micro-level. Even in a best-case scenario where victorious revolutionaries open up the political economy contest arenas to competition, building the necessary coordination capacity to run the meso-level elite system on more inclusive terms is a challenge that requires more than one generation to master, as a managerial, technical, and creative class (see Section 8.1.1, Figure 8.2) cannot be formed overnight. In another instance, if the current situation is any indication, few would claim that most of the warring, unconsolidated elite coalitions succeeding the Gaddafi regime after 2011 have either the inclination or the 'knowledge' to eventually be less extractive than the vanquished despot: "Executions, torture and slave markets persist in Libya: U.N" (Nebehay, 2018). The general principle is that besides eradicating the monsters, 'draining the swamp' also drains accumulated 'knowledge', thus being detrimental to the economy and often fatal in terms of human development:

> Despite decades of human rights violations, Gaddafi's regime upheld one of the more comprehensive and effective health care systems in the Arab World. Funded by oil exports, the government offered free, quality health care to all citizens. [. . .] Seventeen hospitals have been closed, while only four of Libya's 97 health care facilities are functioning above 80 percent of their normal capacity. The remaining hospitals are overcrowded, struggling to perform basic procedures as medicines and supplies are often depleted and many health care providers have fled the country. (Dunphey, 2019)

Such bleak pictures of the outcomes from non-elite confrontation and struggle do not attempt to exonerate the incumbent elite coalitions caught up in revolutionary processes. They are the proximate cause of revolutionary mayhem and their own worst enemies, having fueled the flames of discontent by failing to engage in the transformation of their elite business models before non-elite pain reaches the tipping point.

For most of the non-elites that survive revolutions, the sacrifice will not have been worthwhile. But what are the prospects for their descendants? In the French

53 The origin of this phrase might be an analogy to Saturn according to Mallet du Pan (1793, p. 63) who describes how the struggles that followed the post-revolutionary fragmentation of power ("The *ensemble formidable* that united all its parts and directed its movements is now dissolved") led to new disputes and counter-revolutions within the revolution ("the Convention and its factions are working to concentrate power within themselves; but before they can achieve this, they must reduce the rebellious departments and cities, defeat the victorious royalists in the West, prevent systematic coalitions, and suppress the dangerous example of effective resistance").

case, Hobsbawm (1990) and Acemoglu, Cantoni, Johnson, and Robinson (2009) see progressive consequences in the long historical process. Industrial and commercial elite business models replaced those of the aristocracy via policies effecting land redistribution, increased equality, a streamlined legal system and the elimination of barriers and fiscal obstacles protecting oligarchic arrangements. More controversially, in the Russian case, Allen (2003), who never contemplates the Tsarist elite system transitioning to a liberal system, assesses the Soviet industrial revolution transformation from "farm to factory" in positive developmental light. One wonders whether the full extent of the chaos and suffering caused by Napoleon and Stalin are truly factored into these positive assessments. Plausibly, for non-elites and elites able to stomach the human cost of political violence, a new payoff structure in the economy (using the language of Baumol, 1990, p. 899) with more inclusive institutions geared towards higher levels of value creation may justify revolution. But such outcomes do not happen in the near-term and even in the best-case scenario only come to pass during the lifetimes of their children and grandchildren.

Given the unpredictable outcomes of violent non-elite vs elite political confrontation and the travails of the victorious new elites in their efforts to consolidate coordination capacity, by what general principle should non-elites effectively advance their interests? In the context of the elite/non-elite relationship a range of options for collaboration and confrontation have been suggested, but this inquiry posits that the optimal non-elite response is to take sides and participate in intra-elite contests. While the nuances of each option are delved into later (in Section 8.1.3 on how elites can best serve non-elite interests), the premise is that non-elites should strategically and systematically ally with elite coalitions whose business models generate residual income with comparatively greater value creation (and minimize net value extraction from non-elite stakeholders). In the tradition exemplified by Ricardo (1817/1999), *The Economist*, and Cobden and Bright, knowledge elites (see Figure A5.11) should be instrumental in such processes, reaching out to non-elites who usually lack the necessary insight into the intricacies of elite business models.

Intra-elite contests are constant and of great consequence to non-elites, as one or the other of the contending elite business models will invariably offer more sustainable value creation (manifested, for instance, by a higher VCr). Still, this is not always easy to discern. For example, which of Apple or Meta is the less extractive based on *The Wall Street Journal* headline below?

> Apple, Facebook Trade Barbs Over Privacy-Focused Business Models: Tim Cook criticizes app-tracking tools a day after Mark Zuckerberg accused Apple of interfering with how Facebook apps work. (Higgins, 2021b)

While for Mark Zuckerberg, the extraction his firm suffers from Apple is "soul crushing" and an incentive for his AI open source approach (Cheung, 2024, 0:07), a society is in crisis when knowledge elites cannot differentiate between the actual and potential sustainable value creation of competing models and are co-opted by one or the other to peddle their narratives. That is, a society where the 'elite vs non-elite knowledge gap' hypothesis holds and is not addressed (as part of what has been termed 'the Amazon dilemma' in Section 2.2.2). Of course, there are genuine technical and research challenges at play here too, especially with the emergence of ever more complex supply chains, technologies, and business models where the degree and direction of transfer-IN/OUT is extremely difficult to determine. Another factor is the disinterest, cynicism, and venality of knowledge elites in elucidating non-elite interests, meaning that non-elites are *de facto* impeded in taking a stance consistent with their self-interest. Instead, white noise and false flags are purposely produced to increase knowledge asymmetries. This is even more galling when elite/non-elite alliances to effect institutional change end up heading in the wrong direction. Examples of misguided non-elite choices abound. Numerous automotive workers voted for Brexit only to subsequently lose their livelihoods (pointedly, the day before the UK's separation from the EU, 66,032 jobs had been destroyed in that sector according to the *Brexit Job Loss Index*).[54] The media, academics, religious leaders, and other knowledge elites often fall into the trap of supporting facile and populist narrative designs of all persuasions that wittingly or unwittingly sabotage non-elite interests.

Well-meaning knowledge elites today are unable to solve the Gordian knot of asymmetries in the 'elite vs non-elite knowledge gap', one that is possibly intractable with the prevailing elite separation of powers. Are privacy narratives a distraction once data becomes the key factor of production? Is not the relevant issue how much value is appropriated but *not* created by technology firms or the main owners of LLMs from their consumers and other stakeholders?[55] Answers to these or the earlier Apple vs Facebook question are impossible to arrive at without changes in intra-elite contest rules to ensure algorithm and, more importantly, business model transparency, along with generally established sustainable value creation frameworks and measurements. Doctorow (2024b) documents the "small cartels" hidden in the "payments system" cranny of the American economy that extract "2-5% out of virtually every dollar exchange"; thanks to "MEGO" ("My Eyes Glaze Over"), there is currently a zero probability that such "performative complexity" will be institutionally challenged. Will this generation of knowledge and political elites ever be able to fully assess the value creation and transfers of elite business models and then act on minimizing the latter?

Unless the answer is positive, non-elites will lose the political options to tactically or strategically side with the higher quality elite and tilt intra-elite contests (as is

54 See the statistics at: https://smallbusinessprices.co.uk/brexit-index/

55 Since metadata and content are so effective at modeling and influencing human behavior, advocacy groups like ProPublica could try to assess value appropriated but *not* created and quantify sustainable value creation in conjunction with their commendable efforts to shed light on "privacy" (see: https://www.propublica.org/article/how-facebook-undermines-privacy-protections-for-its-2-billion-whatsapp-users).

shown in the discussion of Figure 8.2). It has been argued that culture determines elite quality (Welzel, 2002, p. 275) and this is true insofar that culture affects the motivation for transformational leadership at the top (see Section 5.3, Table 7.2). Elites are in a permanent state of competition against other elites, not against non-elites, and both sides of the intra-elite contest have access to the same mass culture to craft narratives in support of their business models and subsequently impact cultural dynamics. Narrative markets are fortified by knowledge elites that connect mass culture with sustainable value creation (e.g., regarding emerging technologies) and from there with wider social and political movements (Figure A5.12a). They may well be the political economy's most important route to further non-elite interests, as one elite can nudge or pressure the rent-seeking business model of another towards inclusive transformation.

As non-elites can hardly force elites to undertake transformation, the constructive impetus must come from *inside* the elite system. Having tentatively rejected the path of non-elite vs elite confrontation—and especially revolutionary violence—in favor of political options that invoke taking cooperative positions and making informed alliances in intra-elite contests, this theory argues in the final Proposition 20 that both economic development and non-elite interests are critically served by an elite separation of powers realized in all of the elite power relations implicit in The Three-tier Set of Intra-elite Checks and Balances (see Figure 3.7).

3.3.3 Proposition 20: Non-elite interests are served by a comprehensive elite separation of powers

Proposition 20 closes the loop on the non-elite perspective by tying together the various bases for economic development developed in previous propositions and conjectures. It also completes the circle started in Proposition 1 by providing a normative benchmark for institutions that incorporates the elite dominance iron law. Fundamental to all of this is the rejection of the earlier non-elite rule fallacy ('people power') that references democratic ideals or the notion of polyarchy, as, for example, in *Who Governs?*, where Dahl sees an America where elites compromise because of "long-run changes from oligarchy to pluralism" (1961/2005, p. 223). The reasons for elite dominance due to the existence of 'the extraordinary lever' are comprehensively discussed throughout this work, but the Olsonian coordination capacity advantage of elites as articulated in the theory of groups should be reiterated: "concentrated interests will be overrepresented, relative to diffuse interests, in the policymaking process" (Bueno de Mesquita, 2016, p. 109).

The Wall Street Journal highlighted that "Bitcoin Fans Are Suddenly a Political Force" (Rudegeair & Bykowicz, 2021), while a follow-up article focused on the influence that crypto has gained in Washington by enlisting former high-level officials like Mary Jo White, Lawrence Summers, Christopher Giancarlo, and Brian Brooks (Kiernan & Michaels, 2022) or by "polluting the US election" in their support of candidate Trump (Kelly, 2024). Crypto elite coalitions have suffered setbacks, but those that survive increasingly do so on account of their elite coordination leadership over the institutions that regulate finance. Despite their anti-establishment appeal and grassroots support, these emergent elite coalitions (often led by rather unconventional knowledge elite members such as technologists and blockchain specialists) have risen not by tapping into the power of non-elites, but rather by establishing an intra-elite bargain through which the emergent coalitions integrate with part of the financial establishment and are blessed by political power (see the quote above, the eight figure political campaign contributions by Sam Bankman-Fried in the 2022 US midterm elections, or the Epilogue discussing Trump's coalition). Such intra-elite alliances are certainly perplexing when they support decentralized finance "DeFi" narratives that purportedly encapsulate non-elite preferences. Nonetheless, crypto coalitions have already successfully admixed into the elite system: "The growth in professional investors underscores the rapid mainstreaming of cryptocurrencies in recent years", with 80% of the 300 institutional investors surveyed by State Street having rules that permit "exposure to cryptocurrencies" (Vigna, 2022). The best may yet still be to come for the institutional entrepreneurs of crypto as indicated by price rises (Yaffe-Bellany, 2023) on expectations that the Securities and Exchange Commission (SEC) was about to continue to clear the path for exchange-traded funds like the Invesco Bitcoin Strategy ETF, an investment product based on "futures contracts on bitcoin [. . .] traded on commodity exchanges registered with the Commodity Futures Trading Commission".[56]

While the inclusion of non-elite voices hardly matters when it comes to the nitty-gritty of institutional change associated with elite business models, the sustainable value creation premise of this work stresses that elite and non-elite interests are *not* zero-sum or exist in contradiction (e.g., as in Marxism), nor are they invariably non-cooperative and adversarial as implied in some economic models (e.g., Acemoglu, 2006). The ETED holds that non-elite interests are symbiotic with those of value creating inclusive elites, while evidently incompatible with rent seekers and extractive elites (the relevant question for academics, policymakers, or the non-elites in the earlier example is which DeFi models—if any—create more value than they extract).

As previously emphasized, non-elite interests are best served by the full appropriation of the value they create and the minimization of being at the receiving end of transfer-IN. The likelihood of inclusive elite business models advancing in the political economy increases with a more robust and comprehensive elite separation of powers along all possible relationships in 'The Three-tier Set of Intra-elite Checks and Balances' (Figure 3.7, also see Table 3.2). Such a separation of powers provides more opportunities for non-elites to throw in their lot with elites that are running or promising

56 From the 'From N-1A' Registration Statement filed with the SEC by the registrant and available at: https://www.sec.gov/Archives/edgar/data/1418144/000119312521236682/d209327d485apos.htm less extractive elite business models. The elite separation of powers requires that there is elite system cohesion and institutionalized intra-elite contest rules. Two of the various mechanisms at work in the practical realization of Proposition 20 are now explained.

First, a robust separation of powers encourages greater competition and demands overcoming knowledge asymmetries and adding transparency about the value creation positions of elite business models. Knowledge elites will have more chance of finding a protective home in one of the many elite coalitions, thereby being less dependent on and less likely to be captured by (the more extractive) dominant coalitions, notionally enabling them to articulate narratives and analyses that emphasize sustainable value creation and reflect the non-elite perspective. Second, and perhaps more fundamentally, the separation of powers means a lower bargaining power differential handicap for emergent value creation elites in their rise to the top. As a result, they—and the narratives that they bring with them—will be more numerous, while the incumbent gatekeepers they encounter on their journey will be less reactionary under the open access social order that such competitive conditions presuppose. That is, the value creation 'knowledge' advantage will more readily convert into power.

According to the 'value creation by elite separation of powers' conjecture, national elite systems with power distributed across many coalitions, institutionalized intra-elite contest rules, and numerous vibrant contests for elite business model standing, increase the likelihood that sustainable value creation elites will emerge to serve non-elite interests. In the meantime, conceptualizations of non-elite dominance, such as co-rule, post-revolutionary paradises, or genuine democracy, are misleading and risk being a distraction to the advancement of value creation elite business models and achieving inclusive societies. Does this conjecture imply that non-elites have no role at all to play? Quite the contrary, as the discussion of the case of Rosa Parks will show later in this section (and as is argued in Proposition 19 and depicted in Figure 8.2). Guiding principles for non-elites include not to fall prey to populism and to be vigilant against divisive narratives that selectively address extractive transfer models (and benefit certain non-elites rather than most non-elites). Non-elites should also be cautious about winner-take-all monolithic narratives that impoverish the elite separation of powers. At the other extreme—and equally problematic—the waters of the political economy become muddied if an array of weak and chaotic narratives proliferate and churn into irreconcilably opposed positions, triggering the de-institutionalization of intra-elite contests and impairing elite system cohesion. Since the mid-2010s, US politics has seemingly been on a rendezvous with this extreme, leading to the key empirical question of whether such shrill polarization results in increased or decreased value transfers away from non-elites via extractive business models in such hotly debated areas as health care, inflation, immigration, data and AI, abortion, industrial subsidies, public safety, or even war.

When elites with high value creation positions win institutionalized intra-elite contests, they grow the pie, and their models are more likely to enable both the principals and non-elite stakeholders to appropriate the value they create. The case of the Corn Laws of 1815 is further expounded upon because it provides a textbook example of the limited, supporting role of non-elites as allies of value creation elites in economic and human development. The narrativized preferences of non-elites and agitation by the Anti-Corn Law League played a part in the rise of the industrialist elite. They had very good reasons to strategically collaborate as the new package meant more jobs in the factory system, as well as cheaper bread on the back of the repeal of the grain tariffs (at the expense of the old elite landed aristocracy model). After all, "grain formed a very large part of the standard of living of the working classes (perhaps one-third of total expenditures)" (Stigler, 1952, p. 200). Still, it must be stressed that the repeal of the Corn Laws in 1846 was not effected by non-elite agency or elite agency for the sake of non-elites. Rather, it was due to the effective mobilization of the industrialist elite coalition against its rival in a majestic decades-long institutionalized 'within-system' (Tier 3) contest, a characteristic of Great Britain that predates its modern history.

Upon accumulating the power of 'might' in the political arena, in part thanks to having the power of 'mind' in society's narrative arena to which non-elite inputs contributed (Figure 3.5), the Manchester industrialists were able to pay lower subsistence wages to their non-elite labor thanks to cheaper grain imports. As Marx and Engels insistently recounted, even after the repeal of the tariffs, life for the working classes continued to be harsh. Nonetheless, it is indisputable that without the existence of a vigorous and comprehensive British elite separation of powers, elite system transformation toward higher sustainable value creation positions (and higher elite quality) would have been more difficult or even impossible. Overall, the development journey after this critical juncture produced positive outcomes such as a higher quality of life over the following two centuries (life expectancy in the UK went on to more than double from 35 years of age in 1770). What is essential to the ETED is that the development process was kick-started on the back of manifold institutionalized intra-elite contests operating on the foundation of a robust elite separation of powers balanced by elite cohesion. This was in contrast to Junker Prussia, where excessive cohesion nullified checks and balances and blocked attempts at an elite transformation away from protectionist models (also for grain). While German life expectancy grew in a similar way to that of Britain, the stymied intra-elite competition in the political economy had far-reaching and devastating consequences for Europe and humanity at large (Gerschenkron, 1943/1966; discussed in the Epilogue of this work). Notably, elites need not be altruistic; rather, in pursuing their self-interest and to maintain their status they must be ready for open and fair (i.e., institutionalized) fights for ascendancy against their peers.

The Three-tier Set of Intra-elite Checks and Balances is the ultimate protective mechanism for non-elites against extractive elite business models. Moreover, the elite separation of powers opens the portal for non-elites to participate in and help determine the outcomes of intra-elite contests that result in inclusive business models and institutional change. In this regard, the non-elite strategic collaboration with elites is important, as the case of Rosa Parks demonstrates. Non-elites have roles to play in all three political economy arenas, particularly in market arena contests, for instance, by activating their bargaining power as consumers in the Montgomery bus boycott. Again, the 'value creation by elite separation of powers' conjecture posits that the more comprehensive and robust the intra-elite set of checks and balances are, the more numerous are the avenues that open up for tactical and strategic non-elite participation in intra-elite contests and the higher the likelihood that value creation elite business models prevail in the political economy. In the decades prior to Parks' stand in 1955-56, the key problem was that America had few elites of any type (business, political or knowledge) ready to contest the business models of incumbent racist elites, with most staying on the sidelines instead of supporting the demands of African American non-elites to end extractive transfers. The ability of non-elite preferences to pressure and effect institutional change to advance their interests rests on alliances with elites and on the roles that non-elites can take as arbiters in the intra-elite contests of the political economy.

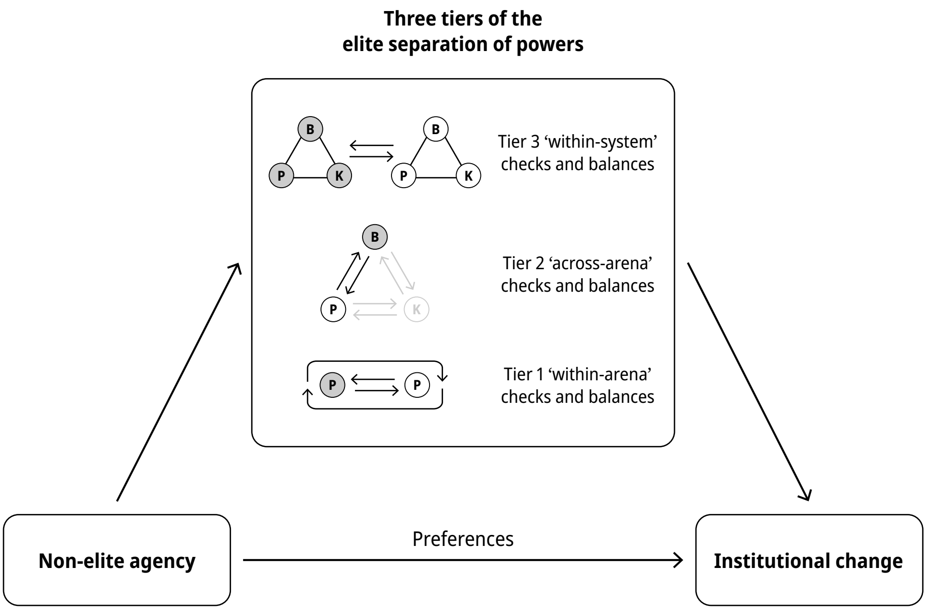


Figure 3.9: Three tiers of the elite separation of powers mediating the relationship between non-elite agency and institutional change.

Figure 3.9 shows that non-elite interests are considered and advanced as preferences for institutional change during intra-elite contests through a robust elite separation of powers which functions as a mediating variable (that explains the mechanism by which the non-elite agency independent variable affects the institutional change dependent variable). Political systems can be analyzed through the lens of The Three-tier Set of Intra-elite Checks and Balances to ascertain the degree to which different elite types (i.e., political vs business vs knowledge, but also incumbent vs emergent or domestic vs foreign) effectively balance each other. Checks and balances are a feature of intra-elite power relations in sophisticated and inclusive modern political economies. As discussed in Proposition 16, elites compete in parallel 'within-arena' (checks and balances within one of the three arenas, Tier 1); 'across-arena' (checks and balances between any two arenas, Tier 2); and, most critically, 'within-system' (checks and balances between coalitions in a system, Tier 3) to maximize residual income. An additional two tiers, 'across-system' ('Tier 4') describing foreign elite agency (Section 7.3.1) and 'from-core' ('Tier 5') describing the role of the core elite coalition (Section 8.1.2), are examined later (see the five tiers of Figures 3.10 or A5.11b).

In practice, the array of institutionalized checks and balances denotes the degree to which there is an open access social order. In Popper's "open society, many members strive to take the place of other members" (1947, p. 153) and succeed in doing so. The "theory of the double balance", proposed by North, Wallis, and Weingast (2006, p. 6), suggests that the economic and political spheres are jointly either open or limited access. In the ETED, the elite power domains of politics and the economy are complemented by the addition of society (see Figure 1.2), and the actual co-variations of emergent properties (Anderson, 1972; O'Connor, 1994) such as elite quality, inequality (Epstein & Axtell, 1996), including its polarized and fractal emanations (Cozzi & Privileggi, 2009), or open access in each of the three domains, are a vital matter for empirical inquiry. This is so because political economies are, at the level of institutions, defined by the discrete configuration of checks and balances across all the intra-elite power relations (of Table 3.2) that usher forth the characteristic intra-elite contests of a country that then heighten its levels of elite quality and associated economic development.

Two important points need to be emphasized about the relationship between non-elites and elite business models. First, the apparent contradiction in a situation where non-elite groups are regular beneficiaries of value appropriated but *not* created via elite business models (e.g., the bounty goes to soldiers of fortune as much as to the elite military contractors) that are extractive of other non-elite segments (in this case, the victims of war). Second, and as discussed earlier (e.g., Section 3.1.2), it must be stressed that a non-elite business model may acquire elite-like agency when it becomes "narrower than the stakeholders with whom it has a direct or indirect exchange relationship", thus generating some of the highest residual incomes in society (see the definition of elites in Section 1.2.4, Proposition 13, or Table 4.1). Such extensive coalitions include labor unions, civil servants, anarchist groups, air traffic controllers, lawyers, or farmers associations and are, for all purposes, sub-systems of the elite system. In short, non-elite agency becomes elite, even if the beneficiaries of residual income are very numerous, when it is supported by important bargaining power endowments and capable of both value creation and extraction activities. Extractive transfers are enabled by power, a quality that is dynamic and always on the lookout for new masters.[57]

The idea of dividing power has deep roots in the West. Aristotle, in *Politics* (1912, 4.14), conceived of a separate legislature (the general assembly), administration (the public officials), and judicial establishment, which in practice was never separate from the assembly and also had executive privileges (Fairlie, 1923, pp. 393-394). In *Histories* (Book IV), Polybius goes beyond his anacyclosis finding (see Section 1.2.1) to suggest a "mixed constitution" based on "several distinct organs, each set off against the others by the constitution, in which the cooperation of these different organs is essential, and therefore where one of them by withholding it may check and obstruct the action of the rest" (McIlwain, 1932, pp. 100-101, as cited in Hexter, 1956, p. 80). Modern China had similar concerns about the concentration of power (see Walker, 1947) and

57 It is important to stress ahead of the discussion of ethics in Chapter 8 that non-elites and elites—the poor and the rich—can all be conceived as utility maximizing agents, and as such are *a priori* morally equivalent when it comes to value appropriation. If the Kardashian-Jenner family and their one and a half billion Instagram followers mirror non-elite aspirations then value appropriation is ingrained in mass culture. The only difference between elites and non-elites is that the latter have not accumulated power and so fail to reap any significant amount of value appropriated but *not* created. Yet human nature and behavior is such that when circumstances allow non-elites to acquire even the smallest bargaining power differential advantage (over other non-elites), the lever need not be extraordinary at all; such advantages will be mercilessly squeezed for whatever value can be appropriated from another. The lesser magnitude of value appropriation aside, the non-elite propensity to exercise an 'inextinguishable value creation option of elites' (Section 2.2.1, Figure A5.4c) equivalent and pursue transformational leadership in their modest domains must, for theorizing purposes, be set to equal that of elites. Elite status does not undermine an individual's ethical fiber any more than possessing non-elite status makes one morally superior (see the discussion of non-elite quality in the Epilogue). Aristotle preferred aristocracy to democracy and Madison's "main fear" was "too much direct democracy" (Winters, 2011, p. 30). The perpetrators of some of the 20th century's most heinous crimes provide evidence of non-elite moral predispositions when a twist of fate places 'the extraordinary lever' in their hands. For instance, the methods of the most notorious leaders of the Tsar's Okhrana (elite born) pale in comparison to those of "the bloody dwarf" Yezhov and others at the NKVD (mostly non-elite born). Again, in terms of social life and personal utility maximization, all humans are *a priori* assumed to be equal, i.e., to possess a similar propensity for value appropriated but *not* created. The 'universal value extraction propensity of humans' (socio-economic) premise, rooted in the basic constraint of the human condition (Figure 8.6), is a notion that has not gone unnoticed by philosophers like Nietzsche, whose Zarathustra states: "and even in the will of the serving I found the will to be master" (1883/2006, p. 89). Xunzi, "the second great representative of the Confucian tradition [. . .] recognized that human nature needed to be restrained not only to protect one human being from another but also to protect Nature from being destroyed by unregulated human exploitation" (Ivanhoe, 1991, p. 309). Both elites and non-elites will extract from other non-elite groups to the extent that their power differentials permit. Finally, given this understanding, a multitude of testable hypotheses might be formulated for economic development such as which institutions (including those that are *de facto* embedded in cultures) most effectively constrain which second-order value transfers across each and every socio-economic level (see the visualization in Figure A5.14).

likewise developed solutions for its separation such as the *The Five-Power Constitution* conceived by its first president, Sun Yat-sen:

> Western countries have practiced the separation of legislative, judicial, and executive powers for only a little over a century. However, if we now want to combine the best from China and the best from other countries and guard against all kinds of abuse, we must take the three Western governmental powers—the executive, legislative, and judicial—add to them the Chinese powers of examination and censorate and make a perfect government of five powers.[58] (Sun Yat-sen, 1946, adapted from *Zhongshan quanshu*, as cited in de Bary & Lufrano, 2000, p. 326)

At its core, the modern democratic ideal, like the narratives of most political philosophy systems, seeks restraints on elite rent seeking. Democracy's chief utility to non-elites is not so much in the purported access to institutional arrangements that were once only privy to traditional elites, such as all-important guarantees on property rights and freedom. Modern democracies come with an explicit form of the elite separation of powers to preempt extraction—intra-elite contest rules that protect some rights and freedoms. Their focus is mainly on the political non-market arena, following the signposts provided by Montesquieu and the *Constitution of the United States of America* (1788) which, as Levi (1976, p. 373) recounts, was inspired by Gibbon's first volume of *The Decline and Fall of the Roman Empire* (1776/2001), Voltaire, Rousseau, and Adam Smith's *Wealth of Nations* (1776/1904), with the latter "emphasizing the economic vitality of separating functions". The legislative, executive, and judicial separation of powers, more so than voting, opens the avenues mentioned earlier for non-elites to affect intra-elite contests and so realize their own interests. Democracies have also adopted other balancing political mechanisms to stop the abuse of power.

To Madison, the larger political union balances different interest groups that otherwise would go unchecked. His opening sentence in *Federalist No. 10* (1787/1977) is unambiguous: "Among the numerous advantages promised by a well constructed union, none deserves to be more accurately developed than its tendency to break and control the violence of faction". He goes on to expound how if such "factions"—here understood as elite coalitions—are unrestrained, they will extract value from the majority. He argues that a union under a federal Constitution will act to check and balance local "factions" for the "common good" before they are able to engage in what he saw as extractive activities:

> A rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project, will be less apt to pervade the whole body of the union, than a

58 The power of examination refers to the meritocratic selection of government officials through tests, while the power of the Censorate refers to the institutions that control the effectiveness and integrity of government officials. Note that: "The Censorate was included among the five independent powers [in Sun Yat-sen's theory] because tradition marked it as a good old institution, and because under a system of separation of powers it was felt that an independent organ was needed to check on the other governmental organs to keep them within their scope of authority" (Ch'ien, 1936, p. 337, cited in Walker, 1947, p. 3).

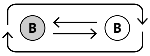
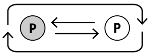
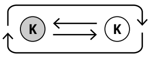
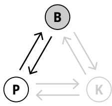
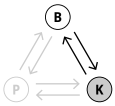
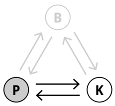
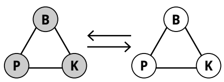
> particular member of it; in the same proportion as such a malady is more likely to taint a particular county or district, than an entire state. (Madison, 1787/1977, *Federalist No. 10*)

For all the vision and thoughtfulness of this 18th century thinker, the separation of powers in a democracy and constitution is hardly fit for the purpose of dealing with the social and technological changes and increased complexity of the 21st century, especially given the onset of the "fourth industrial revolution" (as framed by Schwab, 2016) and its novel intelligent technologies and data-driven elite business models. The problem is not that the checks and balances in the political non-market arena—whether within the democratic legislature or the federal union—do not work. These arrangements have simply been superseded by the manner and speed of how power is now amassed and monetized, and by the very nature of intra-elite contests. The connection between centuries-old checks and balances and present-day business model rules in practice is distant and tenuous, as is evident in business areas such as AI, Big Pharma, or ride hailing. The headline for the *Uber Files*: "How Uber won access to world leaders, deceived investigators and exploited violence against its drivers in battle for global dominance"[59] makes clear that formulations for a separation of powers cannot rely on the precedents of Montesquieu, Madison, or any other ideas that overstate the politics power domain. Rather, a checks and balances theory must be comprehensive, transcend the political non-market arena, systematically address the first three tiers ('within-arena', 'across-arena', and 'within-system'), incorporate as many coalitions as possible—especially knowledge elites from the society power domain (in the Uber case, note the role of the International Consortium of Investigative Journalists)—while at the same time fostering intra-elite competition (in this case driven by business elites such as incumbent taxi coalitions or fast-rising start-ups) to curtail extractive models.

Hypothetically, could illiberal polities be comparatively more inclusive and have higher sustainable value creation, even if constitutional checks and balances in the political non-market arena are deficient? That is, if they offer a stronger overall elite separation of powers across The Seven Intra-elite Power Relations, the framework described in Table 3.2 below and based on The Three-tier Set of Intra-elite Checks and Balances (depicted earlier in Figure 3.7). This possibility is evaluated in Section 8.1.5 in considering which political system best serves non-elite interests (see also the sustainability test for political and business systems described in Figure 8.3). To assess the inclusiveness of a political system and its ability to deliver value for non-elites, *all* seven power relations must be examined to ascertain the degree to which those holding the three types of power endowments ('money', 'might', and 'mind') are in balance and able to check each other. Such a detailed analysis provides a basis for predicting sustainable value creation in an economy. For instance, the study of intra-elite power relations 4 and 5 would assess whether the power endowments of business elites respectively capture or sideline political and knowledge elites (or vice versa).

59 See *Uber Files* at: https://www.icij.org/investigations/uber-files/

Table 3.2: The Seven Intra-elite Power Relations in The Three-tier Set of Intra-elite Checks and Balances. The Seven Intra-elite Power Relations in The Three-tier Set of Intra-elite Checks and Balances.

Intra-elite power relations (numbered)		**Checks and balances in intra-elite contests**	**Separation of powers tier**
1 Business vs Business	Market 	Rival business elites check and balance each other in contests for 'money' (economic power) in the market arena	
2 Political vs Political	Non-market 	Rival political elites check and balance each other in contests for 'might' (political power) in the non-market arena	**Tier 1** 'within-arena'
3 Knowledge vs Knowledge	Narrative market 	Rival knowledge elites check and balance each other in contests for 'mind' (social power) in the narrative market arena	
4 Business vs Political		Business elites and political elites check and balance each other in contests between 'money' and 'might' (economic and political power)	
5 Business vs Knowledge		Business elites and knowledge elites check and balance each other in contests between 'money' and 'mind' (economic and social power)	**Tier 2** 'across-arena'
6 Political vs Knowledge		Political elites and knowledge elites check and balance each other in contests between 'might' and 'mind' (political and social power)	
7 Elite coalition vs Elite coalition		Elite coalitions check and balance each other in contests for power (the aggregate of economic, political, and social forms of 'money', 'might', and mind') in all three political economy arenas (market, non-market, narrative market)	**Tier 3** 'within-system'

To this elite theory, "institutional sclerosis" (Olson, 1982) or "institutional failure" (Baumol, 1990; Acemoglu, Johnson, & Robinson, 2005) are representative of a failed and ossified system of checks and balances across The Seven Intra-elite Power Relations. The lower the intra-elite competition in these intra-elite power relations, the higher the likelihood of extractive transfer-IN. Elites transform their models towards higher value creation positions because new elite business model rules (brought about by institutional change) emerge from civil and vigorous intra-elite contests that are mediated by intra-elite contest rules (Figure 3.9) in the context of strong elite cohesion that is often mediated by narratives (see "Evangelicals in the Power Elite" in Lindsay, 2008; "ideological integration" in Gulbrandsen, 2012). Regressive elite business model transitions towards increased extraction results from the de-institutionalization of intra-elite contests and is regularly associated with low elite system cohesion—the opposite of transformational leadership (Table 7.2). A key problem for economic development occurs when extractive elites do not transform their models and remain unchallenged in polities that lack an effective and comprehensive elite separation of powers. Sokoloff and Engerman (2000) illustrate the problem through their description of the glacial rates of elite circulation characteristic of the sugar plantation elite systems in colonial and post-colonial Latin America. The concentration of power, the lack of intra-elite contests, and excessive elite cohesion (see the discussion in Section 5.3.3 and Figure 5.2 on the 'intra-elite quality contest' dilemma) preserves extractive models (for generations).

Swiss direct democracy, on the other hand, generates such high levels of prosperity because it is conducive to vigorous intra-elite contests that play out referenda by referenda. It fosters the ideal where political sustainable value creation—the effective supply of public goods—is "determined by demand (i.e., by citizens' willingness to pay) rather than by supply factors, in particular by the politicians' and bureaucrats' own interests" (Frey, 1994, p. 341). That means that Swiss elite business models actively compete with each other for public expenditure and licenses to operate while robust intra-elite contest rules based on the separation of powers facilitate an elite/non-elite cooperative game for institutional change at the ballot box. As a result, elites check and balance each other across many of The Seven Intra-elite Power Relations and their residual income flows are more sustainable, as their models strategically take into account a wide array of non-elite (voter) interests and narrativized preferences (Figure 3.4).

The Seven Intra-elite Power Relations is a framework that can be applied and empirically tested relationship-by-relationship to elucidate different aspects of society and the political economy. For instance, Paniagua and Vogler (2022, pp. 47-48) have conceived a geological resource diversity construct and show that the greater the diversity of such resources, the higher the level of competition between business elites (intra-elite power relation 2) is likely to be. The fact that the Brahmin priestly caste (a knowledge elite) is superior to the ruler, administrator, and warrior Kshatriya caste (a political elite) reveals much about traditional Indian power structures and the limits to 'across-arena' (intra-elite power relations 5 and 6) contests among elites. In present day America, when Mearsheimer makes the following contentious statement, he is also referring to the state of checks and balances (in intra-elite power relation 6) between political and knowledge elites:

> The American mainstream media is basically toothless, you young people in the audience can't appreciate it because you don't remember when the American mainstream media actually had some bite, but I can assure you it is toothless now and presidents manipulate it with great ease (The University of Chicago, 2012, 58:50)

The intra-elite power relations framework is also useful for comparative purposes. For instance, let us consider the Korean *chaebol* and the Japanese *keiretsu* national elite systems over the last three decades. In many of The Seven Intra-elite Power Relations, Korea displays more vibrant elite rivalry. Specifically, in intra-elite power relation 4, Korea is constantly rocked by scandals that bring to light attempts by the business elite to capture the political elite, while in Japan, the "iron triangle" (Kerbo & McKinstry, 1995; Schmidt, 2004) remains nearly unassailable as a rather pliant media causes any controversies to lead at most to cosmetic change. In intra-elite power relation 1, Korea has the more diverse political landscape—at the cost of eroding elite cohesion—with successive presidents hailing from alternating parties, while post-World War II Japan has been ruled almost exclusively by the Liberal Democratic Party (LDP) since the establishment of the electoral system in 1955, apart from a 10-month pause between 1993 and 1994 (Krauss & Pekkanen, 2011). Taking the 'across-system' (Tier 4) perspective on intra-elite power relation 2, Korea is the more open economy (imports plus exports account for about 97% of GDP, while in Japan the figure is just 47%).[60] Korean elite business models have thus done the unthinkable and caught up with or surpassed Japan in sectors ranging from LNG shipbuilding to semiconductors. The ETED framework suggests that growth and prosperity have been achieved in Korea through the centrality of intra-elite contests (Proposition 18), supported by a well-functioning three-tier set of intra-elite checks and balances.

An elite system tempered by a separation of powers that is materialized in a sophisticated three-tier intra-elite set of checks and balances should be a central aim for non-elite agency and a factor in non-elite narrativized preferences, but is likewise in the best interest of elites. Paniagua and Vogler (2022, p. 47) provide a logic for why elites have "incentives to establish and to commit to the maintenance of power-sharing mechanisms", i.e., intra-elite contest rules, namely the "threat that elites face from other elite groups' unconstrained political authority". Members of the non-elite strata, which regularly become elites in modern and open societies, might in principle have an additional motivation afforded by their personal stories. Once at the top, these former non-elite individuals ought to widen the paths of opportunity that led them to elite status, rather than pulling up the ladder on which they ascended. There is likely no greater contribution to society than fortifying the elite separation of powers and quickening elite circulation with the resources provided by sustainable value creation business models.

60 Data on exports as percentage of GDP show Japan at 21.5% and Korea at 48.3%, while imports for Japan are at 25.3% and for Korea at 48.5% for 2022 (The World Bank, n.d.-a; The World Bank, n.d.-b).

Summary of Chapter 3

Towards a logic for the elite system

Chapter 3 starts with a theoretical dissection of elite agency, before Propositions 12-20 transition the inquiry from a micro- to meso-level understanding that refines the elite system logic and consolidates this work's theoretical architecture.

Section 3.1 proposes three theoretical bases for elite agency, each with their respective anchor propositions. These are the institutional perspective outlined in Proposition 12, 'Elite agency is the principal microfoundation of institutional change' (3.1.1), where elite agency is posited to be the independent variable of institutional change in the theory's microfoundations of institutional change model (Figure 3.2). Proposition 13, 'Elite agency determines distributional outcomes—the winners and losers in the political economy' (3.1.2), recounts how institutions enable winning elites and constrain the losers in the elite agency microfoundations of institutional change model (Figure 3.3). Narrative economics anchors Proposition 14, 'Elite agency effects institutional change through the political economy's narrative market' (3.1.3), which stresses the mediating role of the narrative market in the elite agency microfoundations of institutional change model (Figure 3.4). All three propositions theoretically ground the ETED and are further developed in Chapter 4 and beyond.

Section 3.2 focuses on the system of national elites and in Proposition 15, 'Elite coalitions are the constitutive elements of national elite systems' (3.2.1), conceives an elite system wholly constructed upon interdependent elite coalitions. Systems theory is applied here to strengthen the analysis of elite agency at two levels: the meso-level national elite system and micro-level elite coalitions. The latter, sub-systems of the former, come into full existence by exercising business model leadership at the micro-level (its gravitational force is depicted in Figure 3.6). Proposition 16, 'The elite system operates on a multi-tier set of checks and balances' (3.2.2), expounds on the functioning of the elite system, emphasizes intra-elite contests, and proposes The Three-tier Set of Intra-elite Checks and Balances ('Tier 1' is 'within-arena', 'Tier 2' is 'across-arena', and 'Tier 3' is 'within-system', as in Figure 3.7). These enable and constrain the agency of one elite coalition with the agency of another and thus account for how elite coalitions become winners or losers in the political economy. The elite system is then validated as a meso-level conceptual element in Proposition 17, 'The national elite system is situated at the meso-level' (3.2.3), as it is constituted by other elements (micro-level elite coalitions) and is itself part of a higher order system (the macro-level economy). This theory's hierarchy places micro-level elite coalitions at the bottom, the higher meso-level elite system in which these coalitions are embedded in the middle, and the macro-level political economy system that hosts the elite system—the preeminent level from an economic development perspective—at the top (see Figure 3.8). Here, the complex systems perspective, including uncertainty, emergent properties (such as elite quality), and non-linear dynamics (for economic development trajectories) become relevant to this inquiry.

Section 3.3 closes the loop on the idea that elites are constrained by other elites, rather than by institutions, by positing that institutional change is the result of accumulated intra-elite contests. The significance of elite rivalry is laid out in Proposition 18, 'Elites shape institutions primarily through intra-elite contests' (3.3.1), linking institutional change to winning coalitions and stressing that nothing stunts development like a fractionalized elite system reneging on its intra-elite contest rules. Proposition 19, 'Non-elite agency can constrain value extraction through participation in intra-elite contests' (3.3.2), reviews the non-elite perspective and suggests two basic political options for non-elite agency to further its interests: 'confrontation', through violent 'non-elite vs elite struggle'; or 'cooperation', through active 'tactical' and 'strategic participation' in intra-elite contests or the more passive 'trust in elites'. The use of any type of violence is rejected because the destruction of value during the revolutionary and post-revolutionary phases first and foremost harms non-elites. Proposition 20, 'Non-elite interests are primarily served by a comprehensive elite separation of powers' (3.3.3) is central to this inquiry, prescriptive, and equally applies to elites. The three tier elite separation of powers explains the political economy's distributional outcomes and mediates the relationship between non-elite agency and institutional change (Figure 3.9) and is best understood through The Seven Intra-elite Power Relations (Table 3.2), derived from the Three-tier Set of Intra-elite Checks and Balances (of Figure 3.7).

The ETED is a theory that relies on the separation of powers, but its set of checks and balances seeks to extend those put forward by Montesquieu, Madison, or the US Constitution. In subsequent chapters this is taken two steps further as an expanded elite separation of powers is advanced that includes an international tier to recognize the endogenized agency of foreign elites ('Tier 4' is 'across-system') and the distinct agency of the core coalition ('Tier 5' is 'from-core') as is depicted in Figure 3.10 below.

The logic of the elite system yields conceptual frameworks that are tools for analyzing the critical intra-elite contests. These can be used for purposes such as assessing the stability and health of a political system, structural reform, or the prospects for human development. Vigorous and open elite competition, if balanced with elite cohesion and governed by intra-elite contest rules, offer non-elites the best option to further their interests by allying with high quality elites to nudge elite business model transformation and inclusive institutional change applied to elite business model rules. The ensuing sustainable value creation of elite business models postulates economic growth, with non-elites more likely to appropriate the value they create.

'Towards a logic for the elite system' is the last of the three chapters that comprise Part I ('Propositions') of this inquiry. Together with those put forward in Chapter 1, 'Towards a logic of elite agency' and Chapter 2, 'Towards a value creation and appropriation logic for elite business models', a total of 20 propositions have been developed on elite agency (a summary is provided in Table A1.2 of the Appendix). These, and the positions taken on existing elite and other theories; their key ideas, conceptual elements, and assumptions (presented in Table A1.1 of the Appendix), set out the diverse foundations for this paradigm of economic development. Given the specific language and the expansive theoretical architecture advanced to posit that growth is caused by elite agency, Part II of this work, 'Integration', will further stitch together the ideas set forth so far and tighten the overall structure of the system to facilitate the next theorizing steps. In addition, it sets the stage for the theory and its constituent ideas to be relevant for practice—both at the firm level and in macro-level policymaking—by making proposals for SVC measurements and frameworks for decision-making.

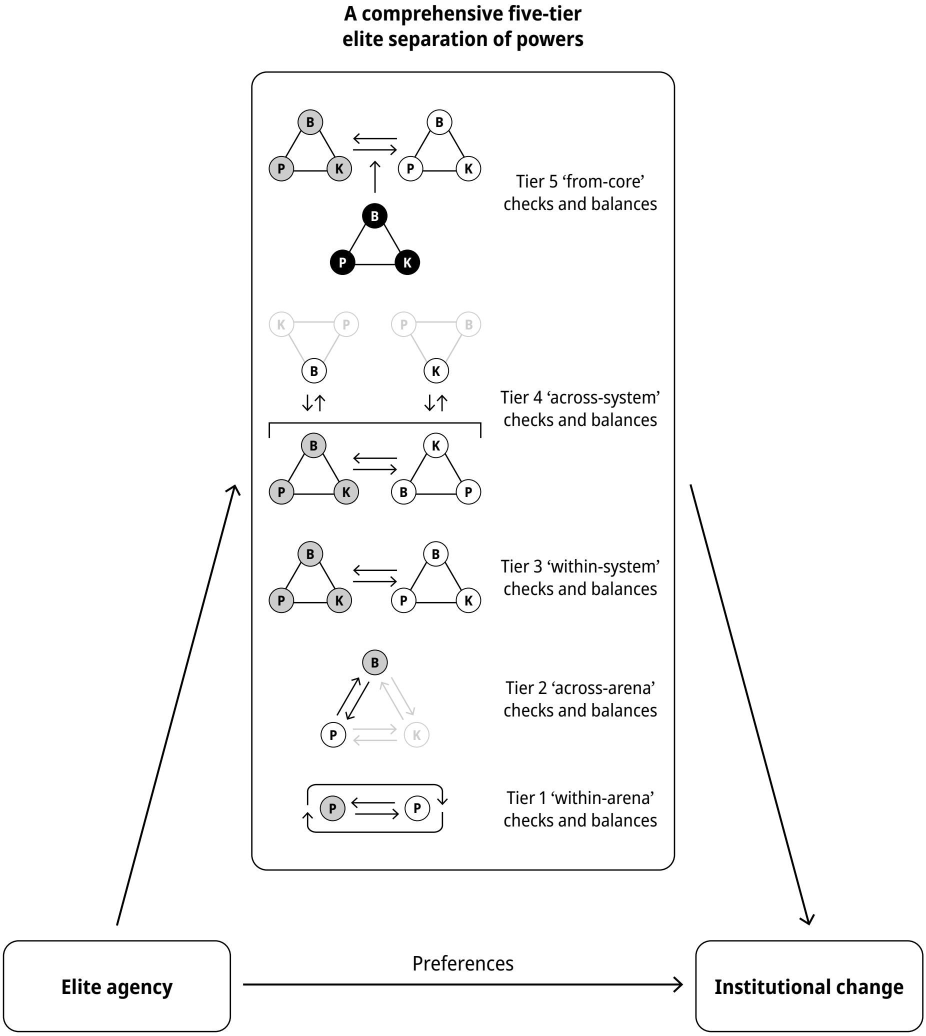


Figure 3.10: A comprehensive five-tier elite separation of powers mediating the relationship between elite agency and institutional change as analytical tools for intra-elite contests.