Chapter 7
The implications of the ETED for incentive systems

> Perhaps no idea has been so influential on economics as the idea that outcomes depend crucially on the structure of incentives facing the participants in an economy. If tariffs, tax rates, subsidies, or property laws change, the economist normally predicts that a different outcome or allocation of resources will occur. [. . .] Economists have also been relatively successful in providing parsimonious explanations of economic behavior with theories built upon the assumption that the individuals and firms in an economy respond to the incentives with which they are confronted. Certainly there is no other system of thought in the social sciences with anything like the same explanatory power. (Olson, 1984, p. 644)

The fundamental tenet of an elite theory of economic development is that elite agency explains growth and progress by shaping incentives. Elite business models, formed as a result of endogenous institutional change and intra-elite contests, both constitute and reflect the principal incentive structure of the economy. In the ETED, the level of economic and human development results from variations in the degree of value creation delivered by these models. This extensive chapter begins by examining the policy implications of this position on development, emphasizes the need to weight and offset value transfers, and then links this work to diverse fields—including practice—while proposing new directions for research. All of this includes the need to test conjectures and to develop falsifiable hypotheses for the gainful utilization of the proposed sustainable value creation (SVC) measurements, such as the Elite Quality Index (EQx) at the macro level and the Value Creation Rating (VCr) at the firm level.

Elite business models depend on intra-elite contest victories in the market, nonmarket, and narrative market arenas of the political economy. Winning elite coalitions convert power into institutional change that is consistent with the preferences of their elite business models and ultimately into residual income (as depicted in Figures 3.3 and 4.4). Elite business models are by no means in contradiction with the common good; indeed, to this theory, high quality elites are conceivably a nation's greatest development asset. Olson (1982, p. 74) contemplates this in recognizing that elites "have some incentive to make the society in which they operate more prosperous". Schumpeter (1911/2003, p. 255) notes that if the upper echelons of society are creative and competitive, the results are "continually raising real incomes of all social strata". For example, while causing a Dutch disease of sorts with an influx of foreign currency, a higher krone, and lower interest rates, Novo Nordisk's innovative weight loss drugs Ozempic and Wegovy bolster the welfare of Danish society through larger tax payments, high-quality jobs, the growing assets of the country's pension funds, the activities of the grant recipients of its foundation,[149] and the vibrant local pharma eco-

149 "The Novo Nordisk Foundation is the world's wealthiest grant maker, with more than $114 billion in assets." (Stiffman, 2023).

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system. In the latter realm, vital inclusive transfer-OUT includes the world-class output by the Center for Protein Research at the University of Copenhagen in the field of proteomics, or, as a *Nature* piece sums up, "building on the success of blockbuster drugs, the country's focus on reinvestment is feeding a stream of discovery" (Nogrady, 2023, p. S16).

This chapter will discuss how countries with inclusive elites that excel at first-order productive activities such as innovation reap an array of benefits, including a higher likelihood that they will prevail in international relations and so preempt extractive transfers from both their elites and non-elites by the elites of foreign powers. It examines the main implications of this inquiry's exhortations for sustainable value creation that emanate from the ontological, finance, and positive assumptions incorporated in its measurements: to holistically 'weight and offset value transfers' against value creation activities (Figure A5.4b). The examination starts with the macro-level implications for policymaking (7.1), before continuing at the micro-level with management, board, and investor perspectives (7.2). Subsequently, an extensive review of international perspectives and the wider implications of cross-border elite business models—from geopolitics to international business—is undertaken (7.3).

7.1 The macro-level policy implications of sustainable value creation

> In summary, the organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts voluntarily entered into, the definition of the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework. (Friedman, 1962/2002, p. 27)

None of Friedman's assumptions in *Capitalism and Freedom* can possibly hold true with the existence of bargaining power differentials. One must only consider the adjudication of rights to monetize the current most important factor of production—data, from which intelligence emerges—or the fact that negative interest rates and inflation are realities in even the most advanced societies. At the same time, Friedman implicitly acknowledged elite agency as the microfoundation of institutional change: a dominant coalition might run an extractive labor union or a monopoly that "generally, arises from government support or from collusive agreements among individuals" (Friedman, 1962/2002, p. 28). While economists recognize these distortions, their econometric models do not make them explicit, specify their economic quantitates, or systematically attribute (elite) business models' profits to extractive transfers and value creation. Yet the political economy never witnesses "capitalism and freedom", but is rather characterized by varying degrees of rent seeking and value transfers across the socio-economic landscape enabled by power. Extractive elite agency, like its value creation counterpart, is opportunistic, ever present, independent of belief

systems, and realized without exception by all sides of the political narrative spectrum and in all cultural contexts.

Elites necessarily source political power in the non-market arena (see Figures 1.2 and 2.1) to secure transfers. For instance, the nationalization of the Big Four British railway companies into British Railways/Rail (1948–1997) led to electrification in the 1960s and general modernization, as well as falling passenger demand and substantial losses; the subsequent Hayek and Friedman-inspired privatization by Margaret Thatcher resulted in increased passenger numbers and higher freight ton-miles with lower operating costs, but also growing public dissatisfaction and more reliance on public financial assistance (Welsby & Nichols, 1999; Dixon & Joyner, 2000; Pollitt & Smith, 2002). As the years went on, the disastrous Hatfield crash and the reversal of privatization's initial efficiency gains led researchers to conclude that: "poor productivity appears to have resulted in increases in subsidy" (Cowie, 2009, p. 102). In short, whether they are state-owned or private, elite business models are alike in that they strive to collude to reduce competition, secure subsidies, and otherwise add value transfer-IN to their income statement to maximize residual income. This is the natural and expected state of affairs, is not objectionable, and is what businesses must do, transformational leadership notwithstanding.

Neoclassical premises about markets are an unrealistic idealization, as are policies that recall the putative primeval free market of the brewer, the butcher, and the baker. The bargaining power differentials of today, typified by the data and intelligence powered expansion of 'the extraordinary lever' in every field (see the four variations in Figure A5.3) make this even more of a chimera. The focus of growth policy ought not to be on fiscal and monetary measures (optimizing the former or targeting prices for the latter, as Friedman would have it) but a constant push for proactive, informed, weighted and targeted structural reform that perennially adjusts the economy's incentive system to induce value creation business models and dismantle the sterile and potentially destructive value transfers persistently designed by the lower quality elites in the system. The first sub-section (7.1.1) examines the general implications of the ETED for the economic policy mix. This is followed by a discussion of its implications for both emerging economies (7.1.2) and advanced economies (7.1.3). Next, selected implications for academic work aimed at policy impact are considered (7.1.4). Finally, policymakers are addressed with a discussion on implementing weighted and targeted structural reform with a long run view (7.1.5).

7.1.1 General implications for the economic policy mix

The discussion in Section 5.3.1 on the conceptualization and operationalization of value transfers was presented as being crucial in addressing questions such as "how many carbon offsets are required to compensate monopoly rents?". Society is such that value creation and transfers are two states of a single reality that are joined—

never separated—by how they are respectively weighted (in the 'sustainable risk origination' discussion of Section 6.6.5, success and failure are two realities joined together by 'probabilities'). This dichotomous typology of business model activities, referencing value on the basis of the binary 'value is created or transferred' ontological assumption (Section 2.3.1), is later worked into the set of ethical principles of Chapter 8 and now addressed in terms of policymaking.

SVC measurements, which are themselves constituted by weighted metrics or indicators, are designed for the weighting of diverse business model activities and the myriad of elite business models in an economy, each with discrete extractive value transfer positions. Since all systems have value transfers, the imperative is to maximize value creation to the best extent possible. This work explicitly advocates structural reform because value transfers are already weighted and offset as a matter of course in all decision-making, implicitly (but also overtly) by elite agency in every domain of the political economy from consumer safety to geopolitics. For instance, legal reforms introduced mandatory seat belts because "seat belt use significantly reduces fatalities among car occupants" (Cohen & Einav, 2003, p. 828). In the midst of World War I, John Bates Clark wrote that:

> Some of the effects of this burden in fettering and crushing the life of the future will transcend all economic measurements, much as do the killing, maiming, and general ravaging that have already gone on. Only the purely economic effects lend themselves to measurement, and a few principles applying to these are what this paper will attempt to state (1916, p. 85).

Given the accumulation of rent seeking and its impact on human and economic development, the ambition of the SVC measurements is to quantify most of these effects and make weighting, already occurring inadvertently and on an inherent and partial basis, explicit. Any limitations to this aim lie not in the theory or its conceptual elements, but with the elite system and the technical feasibility.

The indicators for elite quality and the metrics for the SVC measurements of firms ultimately pursue monetary equivalence (in terms of national GDP origination or firm revenue) for all value creation and extraction activities (from carbon emissions to the value of statistical life for policies that reflect people's mortality rates). Structural reform is aimed at the underlying *de facto* existing structure of weighting and offsetting in the political economy. The pragmatic and technocratic policy slant of this section aspires to overcome the effects of narratives and other forms of power that cause society to experience excessive value transfers. The first implication that emerges from the three assumptions for socio-economic relations (Figure A5.4a) is that weighting must be transparent and consequently deliberate, systematic, targeted, and ultimately transformational. In the interest of development, the weighting and offsetting of transfers should not be left to arbitrary processes, social inertia, or culture, and much less so to winning narratives and their associated biases, blind spots, and the likelihood that they are captured by extractive business models.

This inquiry calls for a novel set of analytical tools and related measurements to underpin and augment policymaking options that are premised on the centrality of business model transformation in a two-way causal relationship between elites and institutions (Figure 3.2). The elite theory sharpens business, societal, and economic understanding to derive actionable prescriptions. More specifically, the intent is a paradigm shift that supplies the conceptual groundwork for effective micro-interventions on institutions that are aimed at intra-elite contests and the long run. The spotlight must be directed on those that associate with business model rules such as the regulation of commerce, central banking policies, or government budgets that provide incentives for value creation or transfers. Advances in economics regularly offer new analytical possibilities, often thanks to new measurements, although these do not always translate into policy. For instance, on the premise that economic complexity leads to growth, Hidalgo, Hausmann, and Dasgupta (2009, p. 10575) suggest development strategies that create incentives that will "encourage the further coevolution of new products and capabilities", and on such a basis, Hausmann et al. (2013) proposed the Economic Complexity Index (ECI). *The Ease of Doing Business Index* was, despite its turbulent history, a benchmark for structural reform and had been publicly endorsed by many leaders capable of shaping institutions, including the Prime Minister of India and the President of Russia (Besley, 2015, pp. 99–100). It is important to stress here that even with new theoretical insights and measurements at hand, adjustments to the incentive system take time, for reasons ranging from cognitive dissonance (Kuhn, 1962) to the resistance against a loss of privileges (Fernandez & Rodrik, 1991). However, contrary to short run and more immediately implemented fiscal and monetary policies, structural reform is carried out with a long view and so reformers who, for instance, wish to encourage entrepreneurship must "start enterprise development policies early" (Acs & Szerb, 2007, p. 109).

SVC measurements seek to serve as variables in the macroeconometric approaches employed for macroeconomic models on the premise that they reflect the critical reality of the elite system: value transfers. The signals that they capture connect to the prospects for development and provide policymakers and society at large with forewarning of specific sectors of the economy that are becoming either problematic or promising because of their abnormal value transfer-IN/OUT patterns. They may even anticipate critical junctures, including the dreaded descent into the 'extractive escalation dynamic' that is a hardly reversible trap—even over the course of a generation. By affording timely transparency on the micro-level analytical perspective, the measurements open windows of opportunity to redress unsustainable rent seeking and preempt the consequent incarnations of the political economy. On the other hand, for countries that are enjoying an inclusive and ascendant economic path, there is a need for clarity and understanding about which elites are contributing most to development so that there is a legitimate rationale to strengthen the incentives in the political economy that support their agglomeration (see Section 4.3.5) when they engage in intra-elite contests. Figure 7.1 depicts the aspirations of the ETED

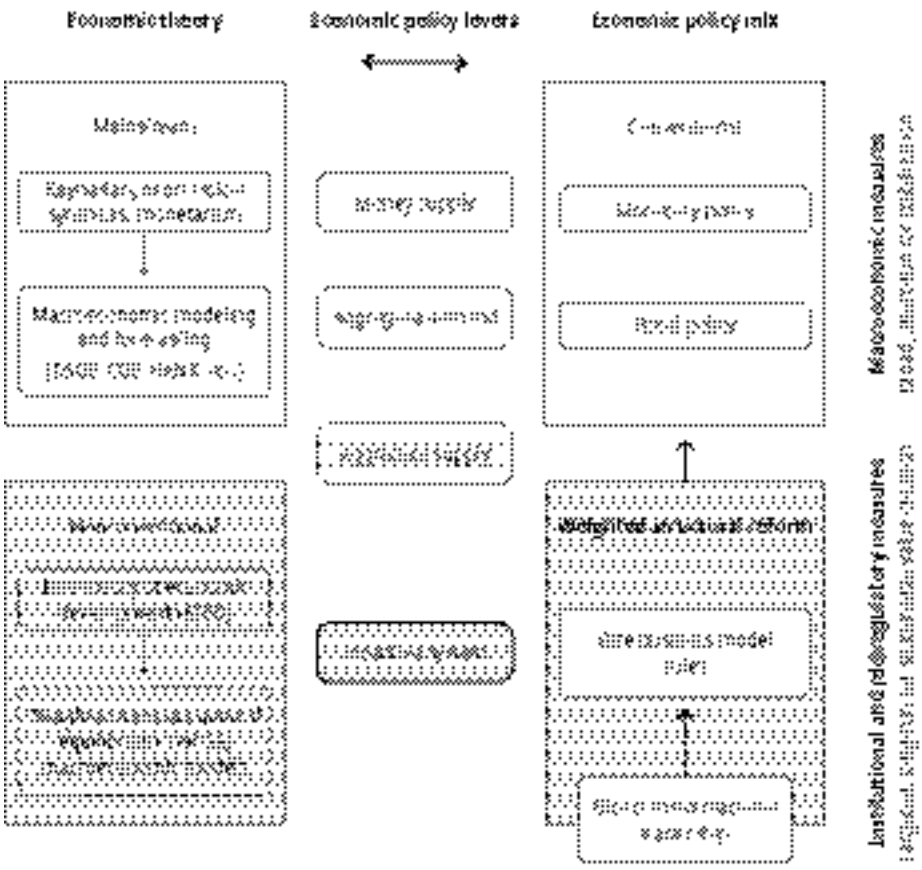

Figure 7.1: The ETED in the economic policy mix: A weighted structural reform approach for the incentive system.

in the economic policy mix: boosting the incentive system for elite business model transformation towards higher sustainable value creation.

The economic policy mix based on the premise of sustainable value creation necessitates the systematic identification of first-order productive activities (value creation), and second-order transfer activities (value extraction) in the economy (see Table 2.3). It can then focus on weighted and targeted policy initiatives for the long run rather than on broad short-run monetary and fiscal measures (as in Figure 7.1). That is, the emphasis should be on narrow institutional change and modifications to specific business model rules that indirectly shape aggregate supply, rather than comprehensive or sweeping interventions that adjust monetary mass or government expenditure to modulate aggregate supply and demand.

Singapore regularly places first in the EQx's ranking of elite quality in 151 countries, excelling in continuous targeted reform. The "roadmaps" for the Industry Trans-

formation Programme of Singapore's Ministry of Trade and Industry (n.d.) are "developed for 23 industries to address issues within each industry". State capacity is key to success and feasible through measurements like the "Smart Industry Readiness Index", an assessment to support firms "initiating their I4.0 [Industry 4.0 digital] transformation journey spanning across organisation, process and technology" (TÜV SÜD, 2024). Reform also requires creative destruction, possibly including replacing capital before it depreciates. While Young suggested "that Singapore is a victim of its own targeting policies, which are increasingly driving the economy ahead of its learning maturity into the production of goods in which it has lower and lower productivity" (1992, p. 16), the government has been proven right time and time again, as putting pressure on elite business models to upgrade is *de facto* a key to development.

In this inquiry, 'reform' starts with an impact assessment where value creation and transfers are attributed metric-by-metric to the stakeholder relationships of principals of elite (and also non-elite) business models and then quantified. In the subsequent policy formulation step, new weightings for these activities are proposed. As the entanglements and links of transfers to other economic variables are determined, nonconventional econometric modeling ensues. That is, scenarios are produced to describe and contrast extant and implicit weighting with normative and explicit weighting benchmarks that maximize long-run value creation. The conceptual element of weighting brings the elite theory into the realm of practice. Weighting as currently realized by conventional measures is seldom explicit, but mostly utilized implicitly and in comparative terms for domains across the economy (leading to erratic institutional arrangements like the inconsistent principles that inform safety measures for pharma vs agriculture vs radiation exposure, etc., as cited in Fischhoff, Lichtenstein, Slovic, Keeney, & Derby, 1980). Rules and regulations directly result from bargaining power differentials that deviate from the counterfactual 'equalized bargaining power equilibrium prices'. The implicit weighting of transfer activities reflects the large/small power endowments of business models that consequently appropriate more/less value than otherwise would be the case. Weighting is universal and emergent, but under transformational leadership and reform scenarios, the pricing of second-order transfer activities becomes explicit, institutions are more likely to result from deliberate action beyond the beneficiary coalition's priorities, and efficient offsets become feasible. Essentially, the implicit weighting will undergo a 're-weighting'. Econometrically, such an approach, here referred to as the 'weighted transfers general equilibrium' macroeconomic model (also, the 'WTGE' model or, more generically, 'weighted transfers modeling'), seeks to stand on its own distinctive qualities while drawing from the conventional toolset for fiscal and monetary macroeconomic measures such as dynamic stochastic general equilibrium (DSGE) models, time series modeling, computable general equilibrium (CGE) models, or Heterogeneous Agent New Keynesian (HANK) models.

Kydland and Prescott's (1982) DSGE is informed by growth and real business cycle theory (RBC), a model of the economy that aims to explain fluctuations and incorporate period sequences that ultimately "mimics the world along a carefully specified set of di-

mensions" (Kydland & Prescott, 1996, p. 69). Such models' representations of reality have become indispensable policy analysis tools in areas ranging from central banking to the corporate boardroom. One such model, Smets and Wouters' DGSE, estimated "business cycle fluctuation in the euro area" and incorporates features like sticky prices, habit formation, and variable capacity utilization, as well as "ten orthogonal structural shocks" from productivity to monetary policy (2003, p. 1123). DSGE models provide a faithful rendition of the economy (e.g., by eschewing price rigidities). Of high relevance to the elite theory are attempts like those of Costa Junior and Garcia-Cintado to derive the time series of the "unobservable variable" of rent seeking "in an otherwise standard open-economy DSGE model" (2021, p. 1). Time series modeling (Box & Jenkins, 1976) supplies insights into upcoming shifts, anticipating vulnerabilities in specific sectors, while its forecasts also enable macro stabilization and the formulation of policies to optimally stimulate demand. CGE models are also useful in their capacity to assess the impact of specific institutional change, such as environmental regulation (even if only partially, see Jorgenson & Wilcoxen, 1990). HANK models deal with market incompleteness and emphasize "(i) precautionary savings and cyclical uninsurable risk [and] (ii) marginal propensity to consume (MPC) heterogeneity and the sensitivity of high-MPC households' income to the business cycle" (Acharya & Dogra, 2020, pp. 1113–1114). However, while being based on microfoundations, neither of these models comprehensively quantify high impact phenomena such as rent seeking, the bargaining power differentials that characterize elite business models, or the extractive transfer-IN and transfer-COST, and the inclusive transfer-OUT, much less their respective impacts (weights) to permit offsets. As such, to the ETED, and for all their remarkable utility, these are tools with finite competence to extrapolate long-term human and economic development trajectories.

All macroeconometric models (see Fair, 2018) aim to analyze the economy, and mostly employ a model construction methodology that traces back to the "Cowles Commission approach" anchored by Tinbergen (1939). Attendant econometric techniques and computational methods have since evolved to include Bayesian inference (Geweke, 1989) and nonlinear optimization algorithms. As noted, 'weighted transfers modeling' would extend existing macroeconomic models by incorporating value transfers as its discrete microfoundation, working with SVC measurements as available (see the full set in Figure 7.8 and Table A3.1a). When converted into variables suitable for modeling, these could contribute to estimated stochastic equations (e.g., to the investment function along with the existing interest rate, output, and other explanatory variables) and be part of identities (e.g., in 'output = consumption + investment + government spending + net exports', ascribing a discrete weight for each component to denote the relative amount of the value transfer). SVC measurements operationalize the 'value is created or transferred' ontology via conceptual elements like elite quality, elite power, extractive and inclusive firm-level transfers, 'cost created but *not* borne', creative destruction, or labor value. As such, they add nuance or insight to the estimated equations for investment, exchange rates, the level of exports, the level of domestic prices, inequality, and, all the way down to their indivisible indicators and metrics, can be plausibly

plugged into macroeconometric models and associated equations as variables. The regressions for sustainable growth linked to elite quality would reference work like Acemoglu, Johnson, and Robinson (2005), Durlauf, Johnson, and Temple (2005), and Rodrik (2012). A pivotal concern is how regressions that are extended by adding SVC measurements to standard variables enhance predictive power. Is it conceivable that elite quality turns out to be an explanatory variable (with highly significant coefficient estimates) in the estimated investment equation, vying for importance with the interest rate? Clearly, any extension of the existing "large-scale statistical macroeconomic models", testable with "strategies of econometric analysis", require "a connection between these models and reality" (Sims, 1980, p. 1) at the construction stage. Moreover, "one way to test a theory is to determine whether model economies constructed according to the instructions of that theory mimic certain aspects of reality" (Kydland & Prescott, 1996, p. 83). The ETED's claims of predictability, and the dependability of its policy toolbox, rest on the empirical validation of the relationships between variables that are conjectured throughout this work.

In their most ambitious and ideal form, WTGE macroeconomic models and econometric approaches address optimization problems like the 'alternating value extraction and creation' conjecture by first weighting the impact and then offsetting value creation and value transfers. Their efficacy would in part be contingent on the exactitude with which some of the key insights of Proposition 17 ('The national elite system is situated at the meso-level', Section 3.2.3) can be described. These include the fractal patterns that characterize the emerging properties at the meso level (e.g., elite quality or power endowments) and make up the micro to macro transmission mechanisms and, relatedly, the nonlinear scaling that organizes the nooks and crannies across the economy and governs principal-stakeholder relationships. Hard to capture actualities such as principal-stakeholder bargaining power differentials would be derived from prices, as would the counterfactual prices of zero bargaining power differentials (see approximation of Figure A5.9c). Support for such an exercise would come from theory; for instance, in identifying the stage of The Elite Business Model Lifecycle and the size of the 'elite power vs value creation gap' (Figure 4.5) in specific firms and sectors, as well as the degree to which their bargaining power differentials emanate from 'knowledge' or 'political economy know-how' (Figure 3.2). In the Coase theorem, if "transaction costs are zero, voluntary bargaining between agents will lead to an efficient (and invariant, according to Coase at the time) outcome, regardless of how rights are initially assigned" (Medema, 1993, p. 209). The zero bargaining power differential cum zero transaction cost world is an impossibility (and undesirable) due to the assertions on elite agency made throughout this work, yet models that use this notion to benchmark and establish the deviations and implicit weightings of transfer activities might still capture vital slices of political economy reality. Thus, cognizant of departures from hypothetical optima, while cautiously approximating the conditions of 'equalized bargaining power equilibrium prices', the models would run simulations under varying offsetting scenarios. Incentives to rebalance power differentials and establish explicit new weightings for

value transfers, such as (de)regulatory measures or even Pigouvian remedies to align private costs with social costs (with transfers like taxes, subsidies, or tradable permits), would address negative externalities and rent seeking. Macroeconomic models incorporating insights on issues such as bargaining power would reveal counterfactual pricing, levels of value appropriated but *not* created, and ultimately market inefficiencies.

The estimated coefficients for the new variables in econometric models are crucial because extractive transfers can be both efficient and inefficient. As a result, they become benchmarks for the formulation of weighted policy and legal reforms in areas like M&As or IP. In other words, the models are intended to quantify this qualitative sequence in monetary terms:

> From 2003 onward, Google rolled up much of the online intermediary world. It bought YouTube, Applied Semantics, Keyhole, Admob, Urchin, Android, Neotonic, and hundreds of other firms. Though Google portrayed itself as innovative, in fact, most of its products, from Maps to Gmail, came from acquisitions. By 2014, Google was no longer just a search engine; if you bought advertising, sold advertising, brokered advertising, tracked advertising, etc., you were doing it on Google tools. It tied its products togethers [sic] so you couldn't get access to Google search data or YouTube ad inventory unless you used Google ad software, which killed rivals in the market. (Stoller, 2022)

Simply put, WTGE models establish the impact of an M&A on market dominance, then on consumer and supplier prices, and ultimately on growth and economic development. They become prescriptive when calculating discrete optimal timeframes for IP protection in each industry. Better still, these models offer estimates of the probability of a cigarette butt polluting a Spanish beach to justly tax tobacco firms (see BOE, 2022) for this particular 'cost created but *not* borne' (transfer-COST), thereby ensuring polite beachgoers do not pay for the uncivil behavior associated with smoking. The number of linkages and the underlying variables associated with value creation and value transfers that can be worked on and adjusted is evidently immense. To enable weighting and offsetting, WTGE models would need to theoretically formalize transmission mechanisms, for instance, to explain the relationship between various copyright protection timeframes and inclusive/exclusive transfers like innovation spillovers (transfer-OUT) or higher prices (transfer-IN). The set of dynamic equations capturing the effects of the incentive structures to be fine-tuned by policy, and relating these to economic performance, requires quantitative, structural, and micro-founded macroeconomic modeling of high complexity, all the more so when the specific numerical representations aim to reflect innate knowledge of value creation and transfers that falsification processes have observationally validated.

In a world where all material transactions are available as data, possibly on a blockchain, ascertained for their value creation by a LLM or similar, the relevant principal-stakeholder transactions in the political economy could also be mapped out. Econometric models would thus simulate the impacts of institutional change, structural reforms, new laws, (de)regulatory measures, and fiscal budgets and monetary policies on business model principal-stakeholder relationships to anticipate economic growth

and human development. WTGE models processing econometric scenarios that weight and offset transfers to establish *qui generat valorem* through the lens of value optimization are akin to players prompting structural reforms in a 'weighted transfers game' (WT-Game), the large-scale, comprehensive simulation of transfers in all socio-economic relations (see Table A3.1b). Its rich data inputs could include SVC measurements of elite business models pertaining to the analytical mapping of coalition social networks across market, non-market, and narrative-market arenas, in relation to institutional change—as generated by political economy AI services (expanded versions of the 'chatbotEQx', Chen, Lu, Scherl, & Sutter, 2025). That is, an intelligent and interactive digital twin of the national economy, a *de facto* dynamic registry of all first-order value (and risk) creation and second-order value (and risk) transfers embedded in the principal-stakeholder relationships of a national economy. The game would capture the seemingly endless combinatorial political economy possibilities emerging from applying 'value is created or transferred' or the even more complexity-inducing 'all elite agency creates and transfers value' onto stakeholder relationships. At the start of the project, and to handle the profusion of weights and offsets, there would need to be a relatively high materiality cutoff threshold (in terms of revenues/profits) for the elite business models described in the game. A progressively higher-fidelity digital rendition of the political economy based on the transferors and transferees of value (or game equivalents such as money or energy) would become a benchmark for real-life elite and elite system transformational leadership (Table 7.2). The identification of inclusive value creators (with entropy reduction agency in the game) would yield proposals to incentivize these via the reform of elite business model rules. It is even conceivable that the scope of 'weighted transfers modeling' could scale internationally. A 'global weighted transfers general equilibrium' macroeconomic model ('G-WTGE') would, on the understanding that transnational elite agency is limited (Section 1.2.1), describe cross-border elite business models with significant impacts (Section 7.3.1), link diverse national elite systems, and incorporate variables expressing the value creation and transfers in international principal-stakeholder relationships. This addition would be the bedrock for the even more comprehensive and demanding 'global weighted transfers game' ('GWT-Game') and stretch the value creation/extraction map to cover the stakeholders of cross-border business models in the global economy.

Gamers already employ their collective intelligence to solve political economy problems akin to those that could be optimized in a 'weighted transfers game'. For instance, in the *SimCity* series, players manage taxation, budgeting, and resource management; in *Anno 1800*, players deal with industrialization, including the lives of factory workers, city-building projects, and colonial trade; in the *EVE Online* massively multiplayer online role-playing game (MMORPG), players interact with futuristic in-game professions like mining, manufacturing, and trading; in the *Capitalism Lab* business simulation, the decision-makers seek optimal production, effective marketing, and growth for their virtual company; and, in the *Tropico* series, players are themselves the elite—the "El Presidente" of the Caribbean island country—and deal

with election fraud, offshore bank accounts, and powerful foreign elites such as Fruitas Ltd (seemingly inspired by a real company, United Fruit). Still, a WT-Game as conceived here, with its econometric formulas, SVC measurements, and computational requirements, seems hardly feasible without the advent of a powerful AI in support of players' decisions and sweeping access to transactional data (see Epilogue). Nonetheless, and while such a game might seem a speculative exploration that scarcely merits any purpose beyond amusement, it is suggested as a research avenue analogous to a quest for 'political economy omniscience' (Figure A5.10 and Table A3.1b depict it in relation to other SVC measurements). Relatedly, and perhaps in the context of a plausible gaming service, Figure set A5.14 provides wireframes that outline the flows of value creation and transfers across business model principal-stakeholder relationships that explicitly connect society's diverse socio-economic groups. The fact that value transfers matter along income distribution percentiles is stressed (in Figure A5.14a), albeit not in an accurate fractal manner (that would require a more nuanced visualization, making explicit the relationships for the percentiles within the top 1 percent, the percentiles within the top 0.1 percent and so on, until one reached the leading elite coalitions at the top as well as the most unfortunate individuals at the bottom). These value creation/transfer relationships constitute the core statements of the gameplay. In using such interactive entertainment platforms, committed and ethically motivated gamers, such as those of Minecraft (see Faber, 2025) could, using human and other intelligence, establish weights that play out as optimal general development. For instance, weighting would include benchmarks for 'alternating value extraction and creation' in each industry or region of the world, thus transitioning across the fractal depths of the political economy while setting 'calibration factors' for value transfer-IN/OUT metrics, weighting them for SVC measurements (see Figure 6.6), and *creatively* proposing offsets. Besides recreation, the applied aim of such a game would be for users to computationally unravel the value creation relationships in the economy and validate elite business models, laws, and institutions that maximize economic and human development.

In summary, a more profound understanding of the micro-meso-macro transmission mechanisms and the linkages between them, possibly through the use of 'weighted transfers modeling' (based on systematically identifying, quantifying, and factoring in value transfers), means that the all-important incentive structure variously described in the literature (see Olson, 1984; North, 1990, 1994; Holmstrom & Milgrom, 1994; Nicholas, 2003; Robinson, 2010) can be more precisely targeted and adjusted. When top-down institutional change and bottom-up elite leadership at the firm level are mutually reinforcing they foster effective elite business model transformation towards sustainable value creation (Figure 7.1). Weighted structural reforms contribute to this end by restraining business models based on transfers that diminish the production function and short-circuit economic and human development. Reforms that strive to constrain extraction are pointedly relevant to advanced economies that rely on innovation, while those that aim to enable novel business models are particularly pertinent to emerging economies that rely on investment.

7.1.2 Implications for emerging economies

"A crucial element of economic growth is that the recruited elite be of the highest quality" (Brezis & Temin, 2007, p. 4). In terms of the ETED, 'highest quality' is understood to be when the leaders of elite coalitions are—relative to their predecessors—running sustainable value creation business models. Technically, it suffices if only a bare majority of elites (e.g., business models representing just 51% of total output) create more sustainable value today than they created yesterday. These patterns explain the continual advances made by some countries (e.g., China or Israel) while others stagnate in the middle-income trap (e.g., Argentina or the Philippines) or seem to plateau at higher income levels (e.g., Japan or Spain). The basic development corollary of this theory for policymaking is continuous structural reform to incentivize value creation elite business models (as measured by their VCr) leveraging intra-elite contests. This eventually results in higher elite quality (as measured in international comparative terms by the EQx and in domestic terms by the EQr). Yet the realities of growth stages require nuance; elite quality is postulated to have differing significance for emerging and advanced economies. According to the neo-classical theory of economic growth, as economies develop, they experience diminishing returns on increasing capital and labor inputs and must therefore transition to productivity and innovation-based growth (Krugman, 1994). This has led to discrete policy recommendations; for instance, on the types of entrepreneurship best suited for the factor-driven stage, the in-between efficiency-driven stage, or the innovation-driven stage (Acs, Desai, & Hessels, 2008). On such a basis, optimal extractive transfer weights specific to each development stage can be determined, while the space for rent-seeking elite business models inexorably narrows as GDP per capita surges (as is later discussed in the 'advanced economies have a higher sensitivity to elite quality' conjecture).

The neo-classical theory of economic growth views emerging economies as not yet at the point of reaching diminishing returns for capital- and labor-based growth (Solow, 1957). Capital- and labor-based business models with comparatively lower levels of elite quality (thereby reducing institutional quality) can nonetheless deliver growth. The establishment of the optimal elite quality levels for discrete stages of social and economic development is an important question for further empirical inquiry (how much rent seeking is permissible?). At the same time, for economic growth rates to approximate their potential, elite quality needs to run ahead of income levels (which would be reflected, for instance, by a country's EQx score being higher than that of countries with comparable GDP per capita, see Casas-Klett & Cozzi, 2024, pp. 2, 3). While extractive elites in developing nations might controversially be given some temporary slack, this inquiry's interpretation of the middle-income trap stresses that work on raising elite quality cannot be postponed indefinitely. Notwithstanding this, it is important to delve into the logic behind why extractive models (such as monopolies, subsidies, or nepotism) can have positive effects on development over a limited time horizon.

In political economies with low levels of economic activity and weak institutions, having a business model, even if it is extractive, might be better than having none at all. An extensive analysis of the effectiveness of Chinese overseas aid by Dreher, Fuchs, Hodler, Parks, Raschky, and Tierney "suggests that a 10% increase in Chinese funding leads to a 1.3% increase in per-capita light output [. . .] which corresponds to an increase in subnational GDP of around 0.39%" (2019, p. 13), meaning that the economic growth and inclusive socioeconomic development benefits are real even when these business models associate with extractive transfers such as environmental costs or political favoritism (Dreher, Fuchs, Parks, Strange, & Tierney, 2022).[150] Moral conundrums immediately arise from such implicit weightings: is it preferable to have low-wage employment in textile factories (sweatshops) in South Asia and an inefficient, subsidized, and monopolistic electricity system in Latin America than to have no jobs or no power at all? For instance, in many developing countries, electricity and water are subsidized, benefiting both low-income households and, even more so, the business model principals, usually rent seekers taking advantage of a monopoly. How could such a "misallocation of resources" (Harberger, 1954) ever be acceptable? The answer lies in the fact that in the early stages of development the logic of the 'alternating value extraction and creation' conjecture requires longer transfer phases, as with the 'extractive push' dilemma (see Section 2.3.1, and Proposition 10).[151]

The 19th century elite renovations in Britain or Germany saw land-owning aristocrats transforming into innovative industrialists and investors through inclusive business models with positive externalities such as trade expansion, urbanization, and other forms of transfer-OUT. These investments in industry were financed by both the precursor extractive elite models (that enabled land and human capital accumulation) and the new models' extractive components (for example, the monopsonist lowering of wages for displaced peasants). That leads to a conceptualization of development where one set of extractive elite models evolves to another extractive set that is, however, less extractive than its predecessor, with higher value creation offsetting (part or most of)

150 For further details, see AidData's Global Chinese Development Finance Dataset, Version 2.0 (Custer et al. 2021), which "captures 13,427 projects worth $843 billion financed by more than 300 Chinese government institutions and state-owned entities across 165 countries in every major region of the world" (see: https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-2-0).

151 Specific policies can be derived from this argument on issues such as patent law, because "without the possibility of monopoly, society could not progress" (Machlup & Penrose, 1950, p. 8). Yet under the 'advanced economies have a higher sensitivity to elite quality' conjecture, if England's first patent law, the Statute of Monopolies of 1623, which granted a limited 14-year term "or less" (section VI) was an optimal transfer limitation given the speed of technological progress at the time, then the 20-year term included in article 70 of The Patent Law of the WTO is too long a monopoly for the contemporary elite business models of advanced economies in light of today's rapid pace of technological change. See: https://www.legislation.gov.uk/aep/Ja1/21/3/section/VI, and https://www.wto.org/english/thewto_e/acc_e/cgr_e/wtacccgr27a3_leg_9.pdf

its own extraction. This weighted and gradual approach to development is unsavory as it invariably involves significant transfer-IN from models characterized by value appropriated but *not* created (e.g., from industrial workers, through protectionist tariffs, etc.).

A key consideration for development is the need to incrementally intensify elite system intra-elite contests and the elite business model transformation dynamic as a nation becomes richer. That is, to reach the point where running water does not generate any transfer-IN for an elite coalition on account of the existence of competition, effective institutions, sustainable pricing, and the spread of knowledge in the sector, thus removing the justification for subsidies on development grounds. It can be argued that robust checks and balances should intensify in tandem with elite business models that augment their coordination capacity through means such as capital or data accumulation.

Returning to the Republic of Korea, Amsden (2001, p. 11) notes how "a lucrative license to establish a general trading company depended on exports meeting criteria related to value, geographical diversity, and product complexity". The *chaebol* are the textbook example of elite business models relying on extraction before transforming towards increased value creation (from the ships of Samsung Heavy Industries to the semiconductors of Samsung Galaxy devices) in step with and powering up the development of a nation. Eventually, and after various cycles of elite business model transformation, the 'alternating value extraction and creation' conjecture results in lower levels of extraction, while the 'extractive push' dilemma becomes less of a predicament: shorter periods of rent transfers to elites suffice in achieving economic growth and transitioning through the stages of development. This corresponds with more inclusive institutions (and improved intra-elite contest rules) that further support growth models based on sustainable value creation. For instance, while it literally took decades of backing Samsung and selected *chaebol* to kick start and then consolidate the competitiveness of Korea Inc. in export markets abroad, on the back of its second five-year plan (described in Adelman, 1969), the tacit institutional support for Alibaba to develop domestically and then emerge as an internationally recognized platform can be measured in mere years (from 2013 to November 2020, see the earlier reference to Ant Financial in Section 4.2.4). The normative implications of the 'alternating value extraction and creation' and the 'advanced economies have a higher sensitivity to elite quality' conjectures require a note of caution with regard to time horizons: value extraction models should have explicit and irreversible expiration dates (as in A Transfer Constraints Framework for policy formulation, Figure 8.2).

Elite agency's impact on development in emerging economies can be illustrated by the classic juxtaposition of Korea's *chaebol* with Argentina's Peronist coalitions over the last six decades.[152] Yet the Miracle on the Han River was initially all but pre-

152 In 1962, the GDP per capita of Korea was US$ 106, about 1/11th of Argentina's US$ 1,155. Six decades later, in 2022, Korea's GDP per capita was US$ 32,255, over three times that of Argentina's US$ 13,686 (The World Bank, n.d.-e).

mised on a robust balance between political elites and business elites (see intra-elite power relation 4, Table 3.2): President "Park Chung Hee provided protection and rents to the *chaebol* in return for economic performance" (Gemici, 2013, pp. 183–184; Kim & Park, 2011). Over time, however, and on the back of domestic value transfers converted into success in the global market arena, checks and balances evolved and the *chaebol* became more powerful than Korea's political (e.g., democratically elected governments, a lenient judiciary) and knowledge (e.g., a compliant media) elites. Some would say that the family-owned industry-spanning conglomerates have become too dominant, and their extractive business model practices have faced bouts of heightened scrutiny. Park (2021) identifies a litany of second-order transfer activities including monopsony, exclusive supply chains, price squeezing, sub-optimal investments, or "IP extortion when bargaining with its suppliers", and thus advocates for "fundamental changes in the country's economic structure and policies. Chaebol reform is the key to these indispensable changes". As will be discussed in the next section, Korea is now at a point where it has less leeway and so its intra-elite contests must progressively squeeze out extractive transfer activities from its economy. Comparing this energetic Asian tiger to Argentina is no longer meaningful.

In the case of Colombia, the subsidized electricity elite business models remain in place despite having been found by McRae to cause "unreliable supply, [and] deter investment to modernize infrastructure" (2015, p. 35). What might once have been a comparatively sustainable value creation model (despite its extractive components) for electricity to kick start economic development (when there was no electricity or even any demand for power) is no longer effective in later development stages after the economic system has acquired knowledge and an appetite for electricity and stable demand exists. As economies develop, the sustainable becomes non-sustainable and structural reform to disincentivize anachronistic elite business models that have outlived their original usefulness is essential wherever they exist. Both the core elite coalition and other beneficiary elites must engage in transformation. In the particular case of Colombia, escaping McRae's "subsidy trap" might involve both the break-up of local monopolies and increasing competition, and "replacing consumption subsidies with capital investment subsidies" for upgrades of "precarious distribution networks" and infrastructure, thus economizing on state outlays (2015, pp. 35, 65).

For policymakers, the main takeaway of this elite theory's emphasis on weighting is that extractive models are unavoidable and even necessary in the early stages of development. Subsequently, however, continuous bursts of structural reform need to recalibrate the weightings to ensure the feasibility of offsets and realign the incentives for continued elite business model transformation towards high value creation positions. Such policies will be facilitated by increasing the elite separation of powers in the context of ever-sharper competition under munificent elite cohesion overseeing stable intra-elite contest rules (see the dilemma of Figure 5.2).

7.1.3 Implications for advanced economies

In advanced economies, value extraction must be progressively met with zero tolerance, notwithstanding this inquiry's caveat: business model exceptions in the context of the 'alternating value extraction and creation' conjecture. This was done, for example, through the Internet Tax Freedom Act of 1998 three-year moratorium that disallowed state and local governments from taxing Internet access (though extending it eight times and then making it a permanent statute is, at the very least, a subpar approach to the 'extractive push' dilemma and questionable from an economic development perspective). The higher relative importance of elite quality for advanced economies is a core implication of this work and has previously been formulated as the 'advanced economies have a higher sensitivity to elite quality' conjecture.

This conjecture links the accepted dictum that the more advanced an economy, the higher its dependencies on innovation for growth (Solow, 1957; Krugman, 1994). Innovation, a key component of elite business models, demands longer-term investments (relative to the intensified capital or labor input models typical of early development stages) and so is comparatively more sensitive to extractive institutions (as discussed earlier, also see Murphy, Schleifer, & Vishny, 1993, p. 413). Rent seeking by elite business models, including 'risk *not* created but value appropriated' (see Figure 6.9), compromises innovation ecosystems by reducing the incentives to undertake sustained investments (entrepreneurial, human capital, etc.) and uncertainty. Less knowledge is therefore created. Emerging economies might import knowledge from elsewhere, but advanced economies must produce new knowledge by themselves.

To Krugman's position (1994) that development represents a move from an inputs-based growth model to productivity-based growth, we must add the rationale of elite agency. As economies develop, they need higher elite quality, since the higher the demand for specialized knowledge inputs there is, less leeway remains for tolerating extractive activities. Veering off of an inclusive pathway when a nation's GDP per capita is ascending will result in economic reversal and regression. The space and timeline for the 'extractive push' dilemma drastically shrinks with the 'advanced economies have a higher sensitivity to elite quality' conjecture. The prevalence of value transfers in a political economy (reflected by elite quality SVC measurements) matters to emerging and advanced economies alike, but the negative impact is relatively higher for the latter. *Ceteris paribus*, the proportion of value transfers explains the "divergence" in the economic trajectories of Europe and China that have shaped their distinct paths to modernity (complementing the analysis by Pomeranz, 2000) and also accounts for the discrete growth rates of leading economies, for instance, between the US and Japan at the cusp of the 21st century.[153] The paralysis of Japan's elite

153 The US and Japan were, in nominal GDP terms, the two largest economies in the world from the late 1960s to 2010 when the latter was overtaken by China. Data from The World Bank (n.d.-f) shows

business models, anchored by the inertia of the "iron triangle" or the bureaucratic *keiretsu* bereft of family ownership (see Grabowiecki, 2006, p. 26), is the root cause of the nation's lost three decades. Japan's stagnation during this period contrasts with Korea's rise, powered by its family-run conglomerates, or the radical economic regeneration in the US, driven by elite circulation of the admixture type with transformational elite leadership in sectors as diverse as software, finance, and energy.

The more advanced and closer to the technological frontier an economy is, the higher the elite quality that is required for sustained growth. The indolent elite systems of advanced economies whose elites eschew sustainable value creation see diminishing VCr scores for their leading business models and slip away from the cutting edge of innovation. Exogenous technological shocks will not be seized as opportunities when they are endogenized, but instead result in relative decline. Whether the ossification of Voslensky's (1984) Soviet nomenklatura, the failed strategies of Japan's Ministry of International Trade and Industry (MITI) for the semiconductor industry that saw the country's global market share fall from 50% in the 1980s to 10% today (Suzuki et al., 2023), or the glacial responses to digitalization by the Eastman Kodak Company and Matsushita Electric Industrial Co. Ltd. (now Panasonic Corporation), the more advanced the economy or firm, the higher the cost of resisting transformation towards higher value creation models consistent with the technological state of the art. On the other hand, when elite coalitions engage in business model transformation, some of them will succeed and general economic growth will follow. In the early 1980s, pundits still reeling from the difficult and stagflation-infused 1970s claimed that in the US, institutions had "moved away from ordered markets toward the near chaos of direct political allocation; rent seeking has emerged as a significant social phenomenon" (Buchanan, 1980, p. 4). Institutional decline was at this juncture deemed to be the bedfellow of endemically extractive elite business models. Yet, this was precisely at a time when the seeds for a reversal were planted in a key sector through the outcome of an intra-elite contest—the anti-trust breakup of AT&T in 1984.

New spaces for dynamic intra-elite contests were opened in the market arena (i.e., intra-elite power relation 2, see Table 3.2) ushering in an American technological revolution with global impact. In virtuous cycle fashion, the US elite system and the Federal Communications Commission (FCC) steered institutional change in the 1990s in line with the possibilities of the evolving innovation frontier. The landmark US Telecommunications Act of 1996 was lauded as "the most comprehensive revision of the nation's communications laws in over sixty years" even if it came under criticism from those advocating even deeper structural institutional reforms (May, 2004, p. 1308). The combination of newly enabled elite coalitions with a revamp of the regu-

that in 1995, the GDP per capita of Japan was US$ 44,198, about one third higher than America's US$ 28,691. By 2023, the tables had turned, with the latter at US$ 81,695 and the former at US$ 33,834. American's GDP per capita has close to tripled while in dollar terms Japan's has shrunk by about a quarter. There are reasons to argue, however, that Japan might have reached the bottom and, in accordance with a sequential elite quality pattern, is now plausibly poised to rebound (see Shioji, 2024).

latory regime made America the world's foremost value creator, leaving Japan and the EU in its wake as its ascendant business models surfed the Internet wave. Not only was the once dominant AT&T coalition overtaken, so were its Baby Bell successors. Out of nowhere, innovation-based entrepreneurs predicated on value creation took center stage (see the early stages of The Elite Business Model Lifecycle, Figure 4.5) and became today's Big Tech, admixing into the US elite system and replacing some of its incumbents. For a century and a half, the leadership choices made in the American elite system for structural reform and elite business model transformation, affirming elite circulation and bolstered by a comparatively robust elite separation of powers imbued with cohesion, has seen elites and non-elites alike profit from a sustained burst of innovation that powers the country to this day.

According to Porter: "Innovation and entrepreneurship are at the heart of national advantage" (1990, p. 125). Innovation-based entrepreneurship is central to the ETED because it is the preferred mechanism of elite circulation through which new elites emerge in advanced economies. It also supports the all-important 'minimum elite circulation velocity' conjecture (see Section 1.3.3). As noted in Section 5.1.2, substantial research links the influence of firm founders and Schumpeter's (1911/2003) creative destroyers with economic growth (Aghion & Howitt, 1992; Wennekers & Thurik, 1999; Audretsch, 2007; Carree & Thurik, 2010; Chen, 2014). While postulating conditions for entrepreneurship at the individual, firm, and macro levels, such as "business culture incentives" or institutions, "little is known, either on how entrepreneurship can best be promoted or on how entrepreneurship influences economic performance" (Wennekers & Thurik, 1999, p. 51). Still, Holcombe suggests "the incorporation of entrepreneurship into the framework of economic growth [will lead to] more promising economic policy recommendations for fostering economic growth" (1998, p. 60). Concrete policy reform measures should clearly utilize existing academic insights into entrepreneurship.

Scholarly work has sought to provide a foundation for the formulation of initiatives for the policy mix (see descriptions in Figure 7.1 and Table 7.1). The implications of the finding that "the size of government is negatively correlated and sound money is positively correlated with entrepreneurial activity" (Bjørnskov & Foss, 2008, p. 307) are straightforward. Post-secondary entrepreneurial education appears to matter in high-income nations in "quite specific ways" (Levie & Autio, 2008, p. 253), an observation that is easily implementable as research agendas are reviewed (Nabi, Liñán, Fayolle, Krueger, & Walmsley, 2017) and realized. Carree, van Stel, Thurik, and Wennekers identify a "low barrier to entry and exit" as "vital for a sound economic development" and thus a matter for policymakers to address (2002, p. 271). Diverse authors also champion measures to "directly stimulate entrepreneurship" (Chen, 2014, p. 73), and initiatives to promote economic growth by incentivizing the accumulation of "entrepreneurial capital" (Audretsch, 2007) and reach the verdict that "any policy recommendation on economic development should be based on an analysis that incorporates entrepreneurship, the engine of economic growth" (Yu, 1998, p. 906). In this regard, Caballero's analysis (2008, p. 2) of creative destruction ups the ante because it

leads to specific proposals to stimulate international competition, lower market entry regulations (as per Klapper, Laeven, and Rajan, 2004), ensure "well-functioning financial institutions and markets" (as per Caballero, Hoshi, & Kashyap, 2008), or undertake reforms that encourage "job flows" (as per Davis, Haltiwanger, & Schuh, 1996), where a tenth of the jobs destroyed or created per annum is a reallocation that increases productivity (as per Foster, Haltiwanger, & Krizan, 2001), meaning that "within narrowly defined sectors" these dynamics become "an integral part of the process by which an economy upgrades its technology".

The policy possibilities described above represent an incentive structure to transform the economy towards sustainable value creation. The time lag between business model transformation and technological change determines the competitive edge of firms and, at the aggregate level, national advantage. When the speed of elite business model transformation, a process that relies on newcomers and the admixture mode of elite circulation (Figure 1.1), trails technological change, growth tapers off. Elites that persevere with their models create less value and become less competitive in international comparative terms. Further illustrations include the long relative declines of the once sprawling Daimler-Benz AG, the former leading mobile devices manufacturer, Motorola, Inc., or the diminished (though still vast) Mitsubishi Group *keiretsu*. The prosperity of entire countries is at stake when the largest elite coalitions respond to crises by consolidating their domestic power in the face of technological change (as in The Elite Business Model Lifecycle with its 'elite power vs value creation gap' and the possibility that 'value transfers replace value creation at maturity', see Figure 4.5). In healthy political economies this is an unworkable stratagem. Motorola, in ideal Schumpeterian fashion, was essentially creatively destroyed when taken over by Google in 2012, but the Japanese and German examples have long maintained commanding positions in their particular fields to the detriment, one could argue, of the prosperity of their respective nations.

Complacent leadership, management inertia, a dearth of the joined-up thinking emblematic of creative elites, or a lack of appetite for risk-taking all trigger suboptimal responses to change. However, the key cause is the ease and viability of doubling down on extractive transfers thanks to institutional arrangements and bargaining power differentials in the political economy. These decision-making reflexes enabled by institutional arrangements are termed here as 'automatic destabilizers' because they increase downward economic turbulence in contrast to the automatic stabilizers (i.e., the "automatic rules" designed into the "tax-and-transfer systems" of "most countries" as moderators of economic fluctuations, see McKay & Reis, 2016, p. 141). Concrete examples include Japan's "highly inefficient, debt-ridden" zombie firms (Ahearne & Shinada, 2005) and zombie banks (Caballero, Hoshi, & Kashyap, 2008) pushing for low interest rates, subsidized capital, lax regulation, or the huge financial inflation-inducing 'lifelines' offered during the COVID-19 pandemic in the EU and the US, stunning details of which are provided by Coyne, Duncan and Hall (2021, p. 1127):

Examples of rent seeking in the COVID-19 pandemic abound (see Vogel, 2020). Consider, for instance, the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, a $2.2 trillion relief package passed by Congress and signed by President Trump in late March 2020. With more than 1,500 entities reporting lobbying activity related to the legislation, the bill became the second most lobbied bill in U.S. history (Evers-Hillstrom, 2020). Public Citizen, a nonprofit watchdog group, found that 40 lobbyists with ties to the Trump administration were able to secure more than $10 billion in coronavirus aid (Tanglis & Lincoln, 2020). Several members of Congress also secured funding for their businesses, with little transparency, through the Paycheck Protection Program they helped to institute, including the Chrysler Dodge Jeep dealership owned by Rep. Roger Williams, who is one of Congress's wealthiest members (Ferris et al., 2020).

When these types of handouts (and transfers in general) multiply and compound in advanced countries, often automatically, the resultant extraction is felt by taxpayers, those at the bottom—and even in the middle—of the socio-economic pyramid (e.g., via inflation or debt that needs to be repaid later), and particularly by the young (see Galloway, 2024). Development and growth are compromised due to a variety of mechanisms such as the leakage of value (see Okun's "leaky buckets", 1975/2015) or the fact that the transfers from the bottom and the middle classes to the top go to inefficient "losers" (Baldwin & Robert-Nicoud, 2007; see also Section 8.2.4 on redistribution). Ricochet effects include eroded social cohesion, non-adoption of new technologies, and the destabilization of complex industry and business systems (high dependencies signify fragility and diminishing engagement with the innovation frontier). Japan's two-generation stagnation is by no means a worst-case scenario; contrary to expectations and for nations facing decline, the island nation is a touchstone of sorts. First, particular elite coalitions or their individual members have not disproportionally appropriated sizable value transfer amounts (at least until the yen started weakening in 2022). Second, while its elite culture sincerely values equality, 'acceptance' has been the chief non-elite response to extraction (Table 5.1) and 'trust in elites' the preferred aggregate non-elite political option (Figure 8.2). In contrast, in Western polities, non-elite responses to similar circumstances are less likely to be based on faith in the elite and veer more towards 'challenge' of the less constructive kind. America and Europe will also see a greater proportion of the more sterile *withdrawal* forms of non-elite 'exit' (as typified by their diverse varieties of addiction) than Japan and its pliant *hikikomori* (Figure A5.8; Section 5.2.3). Elite systems might be inclined to respond to the shrinking pie, for instance, when facing a "polycrisis" (World Economic Forum, 2023) or a "polytransition" (Casas-Klett & Zhang, 2024), with the 'same size of the slice' bias and double down on transfers. Social polarization and radicalization will reflect such perceptions in election results. On a more positive note, every single elite business model transformation towards a higher value creation position grows the pie for all. Political and knowledge elites also play their part in fostering institutional change and implementing structural reforms that tilt the balance in intra-elite contests in favor of the value creation elites. Progressive and targeted reform proposals weight and offset value transfers, on a sector-by-sector (and even firm-by-firm) basis, as is stressed in the next sections.

7.1.4 Implications for research with relevance for policy

The elite theory aims to produce research insights relevant for practitioners, including policymakers. The obvious first suggestion is to test elite quality as an independent variable fit for econometric models that forecast beyond the mid-term (Casas-Klett & Cozzi, 2020, p. 62). Besides growth, elite quality might also relate to other economic phenomena such as innovation or inequality. What falsifiable hypotheses ought to be explored for the applied purposes of the elite theory?

One might posit that the more extractive a nation's elites are (as reflected in low EQx or EQr scores), the less likely the country is to engage in international trade. Levchenko conceives of the "institutional content of trade", where "institutional differences are an important determinant of trade flows" (2007, p. 791). More specifically, the gravity equation in international trade,[154] one of economics' most robust empirical discoveries (Anderson, 2011; Frankel & Romer, 1999), might be extended and adjusted for elite quality. This could be done using the template of the gravity equation's revision for institutional quality; findings show that the "omission of indices of institutional quality biases the estimates of typical gravity models" (Anderson & Marcouiller, 2002, p. 342). A testable hypothesis is whether bilateral trade between two countries is proportional to GDP, inversely proportional to the geographic distance between them, and proportional to an elite quality distance/proximity factor (to each other or to an elite quality benchmark). Such a factor could be derived from existing elite quality measurements and theoretically advanced and operationalized to indicate the distance in elite quality between countries in a bilateral relationship. Similarly, this 'Elite Quality Distance' ('EQ-dist') SVC measurement could be used to model foreign direct investment (FDI) patterns. Will elite quality (as per EQx/EQr scores) or the proximity patterns between home and host countries (EQ-dist) help to explain bilateral FDI flows? The rationale for such hypotheses is discussed in more detail in Section 7.3.6. Their falsifiability matters to structural reform policymaking since the incentives for elite business model transformation towards sustainable value creation would then support trade and investment flows.

As already discussed, unweighted policy responses to economic problems are especially problematic when, however well meaning, they cause extractive transfers (e.g., inflation as a consequence of fiscal measures to reverse COVID's temporary effects on aggregate demand). Could the trap-like situation described in the 'extractive escalation dynamic' conjecture and other elements of the elite theory explain economic phenomena and structural impasses in a different light and so contribute to policy debates? For instance, secular stagnation, conceptualized as lower productivity

154 The gravity equation holds that bilateral trade is proportional to the GDP (economic size) of the two states in question, and inversely proportional to the (geographical) distance by which they are separated.

growth (after having taken "all the low-hanging fruit of modern history" as per Cowen, 2011), and linked to "the decline of real interest rates since 1980" (Eichengreen, 2015, p. 66), has been understood as a major economic challenge for many decades (see Higgins, 1950). BlackRock founder Larry Fink relates "The collapse of productivity" to inflation (Masters, 2023).[155] Rachel and Summers (2019, p. 1) "argue that the economy of the industrialized world, taken as a whole, is currently—and for the foreseeable future will remain—highly prone to secular stagnation" attributable to "changes in saving and investment propensities". But what if the critical factor in secular stagnation is not savings and investments but the lowering of elite quality and the increase in the proportion of extractive rent-seeking and transfer activities by the elite business models of the economy? We discussed Buchanan's concerns earlier: "Behaviorally, rent seeking has become more important because institutional changes have opened up opportunities that did not exist in the nineteenth and early twentieth centuries" (1980, p. 3). Technological advances, from electricity to data, also provide opportunities for rent seeking and, as Glode and Ordoñez explain, "the recent decoupling between information technology and economic progress" (2023, p. 28). Modeling and predicting extractive escalation rounds and linking their impact to growth and economic variables and phenomena relevant to development (like secular stagnation) are worthy areas of research with implications for policy.

An understanding of the microfoundations of increased extractive transfers and economic decline entails investigation in disciplines beyond economics. For instance, political science might shed light on faulty intra-elite competition or on deficiencies in the elite separation of powers; cultural studies might be useful in probing elite system cohesion; sociology in explaining social cohesion; management science might make plain the activities and strategies of value appropriation in excess of value creation at the firm level; philosophy and religious studies might illuminate narratives that nudge elites towards transformational leadership or in the opposite direction; and interactions between psychology and ethics might be the only way to decipher individual transformational leadership. The inclusion of any such insights to the broad fiscal and monetary policy mix of mainstream economics requires theory work and refutable hypotheses followed by a detailed mapping of the legal and other incentive systems to understand their particular effects on value transfers, one business model and business model rule at a time. Rent seeking (transfer-IN and the attendant transfer-COST) is analogous to dark matter that subdues the economy and prevents it from expanding to its full potential. The levers of the incentive system need to shift viewpoints, downplay the macro-level aggregates and instead zero in on each nook and cranny in every business and industrial sector. Even if they are *a priori* less accessible

155 The reader "Diego Velasquez", sardonically commenting on this piece in *The Financial Times*, supplied an alternative interpretation: "Fink says productivity gap caused inflation - maybe 12 years of money printing that enabled Blackrock [sic] to use free money to buy houses and other assets without creating new value had something to do with it?"

to policymakers, the low hanging fruits to boost growth lie in the often-overlooked fractal corners of the economic landscape.

How much respect and momentum could knowledge elites gain in the elite system if they referenced and formulated evidence-based, theoretically grounded, precisely targeted and weighted structural reform proposals for sustainable value creation in the existing political economy, for instance in its fast-emerging spaces like AI, renewable energy, or crypto? Academics, journalists, legal scholars, judges, consultants, religious leaders, movie producers, influencers, and other knowledge elites will naturally find allies in high quality elite coalitions and might even be welcomed as members. These coalitions are inherently predisposed to support inclusive policy interventions, burdened as they are by uncompetitive extractive peers that distort the incentive system and allocative processes with their unproductive political nonmarket and narrative market arena wins. One can safely presuppose that *The Wall Street Journal* headline "Who Won in Afghanistan? Private Contractors" (Nissenbaum, Donati, & Cullison, 2021) is part of a (losing) narrative launched by particular elite coalitions wishing to neuter the perceivably extractive business model of war. New, competitive, and well-crafted narratives with an aesthetic pull tacitly suggest structural reforms and intensify institutionalized intra-elite contests (across many of The Seven Intra-elite Power Relations, see Table 3.2) while protecting the optimal state of elite cohesion that sparks elite circulation and novel coalition configurations around value creation business models.

Economic models and research within the elite theory will yield policy proposals that make value transfers explicit and propose weightings for them that aim to nudge institutions towards inclusive change by tipping the scales toward the higher value creation elite coalitions in intra-elite contests. Narratives for the weighted structural reform of elite business models that are targeted, designed for the long run, and academically refutable can, when disseminated by knowledge elites, also be packaged for non-elites, going viral as memes on social networks or contributing to the programs of political movements (see their narrative bases in Figure A5.12a). The resultant increased awareness of where their interests lie will enable non-elites to better play the tactical or strategic role of the referee (see Section 3.3.2, Figure 8.2) in political processes where elite coalitions face-off against each other.

7.1.5 Implications for targeted and weighted structural reform by policymakers

> This makes it all the more puzzling that most of the explanations of macroeconomic and monetary problems that economists offer are not systematically derived from an analysis of the incentives facing the participants in the economy. (Olson, 1984, p. 644)

The above inconsistency is still a fact of life despite the undisputed understanding that the incentives embedded within institutions are critical to economic development

and that these can only be adjusted with consequential structural reforms. Lewis (1954, p. 155) sought insight into the mechanism, critical to development, by which nations save more (e.g., from 4–5% to 12–15% of GDP), while Laitner (2000, p. 545) affirmed that increases in savings rates are due to the "structural change accompanying growth". Surging incomes are indelibly associated with structural reforms that are highly visible, for instance, in resource reallocations from primary sectors to the manufacturing industries (Kaldor, 1970). One aim of deliberate reform is "inducing firms to improve their efficiency and competitiveness to international levels and thus helping them to export" (Cuervo-Cazurra & Dau, 2009, p. 480). However, structural reforms will always face challenges by incumbent players. The degree to which these are overcome account for the "divergent reform experience of Eastern Europe, the Former Soviet Union, and China" (Sachs & Woo, 1994, p. 103). To be sustainable, structural reform must conscientiously adjust the incentives for elite business models, especially in terms of their rules (see Figure 4.3). At the same time, in any country, dominant coalitions uncertain about how structural reform will affect them will hunker down, resist, and defend their residual income flows (Fernandez & Rodrik, 1991). In this situation, the core elite coalition, and other elite coalitions, must show leadership to create a consensus in the elite system to address the structural impediments to development, weight and offset extractive transfers, and push through a reform agenda for the incentive system. A systematic way of achieving this is now proposed in 'A Weighted Structural Reform Framework' for policy.

Table 7.1: A Weighted Structural Reform Framework for policy.

	Weighted structural reform	Description
(i)	**Impact assessment: Value transfers** (Business and knowledge elite transformational leadership)	(a) Assess elite business models and weight their inclusive/extractive value transfers (e.g., with the VCr and other micro-level SVC measurements).
		(b) Assess the impact that the value transfers of specific elite business models (e.g., with SVC measurements) have on economic growth and human development variables (e.g., with 'weighted transfers modeling', see also WTGE). Integrate into macroeconomic models a map of elite business model principal-stakeholder value transfers and devise an estimable formulation of the relationship between elite agency at the micro-level (e.g., VCr), the meso-level elite system (e.g., EQr), and macro-level for economic development outcomes (e.g., growth, innovation, inequality).

Table 7.1 (continued)

	Weighted structural reform	Description
(ii)	**Formulation: Institutional and (de)regulatory measures** (Knowledge elite transformational leadership)	(a) Formulate targeted long-run *institutional and (de)regulatory measures* for enhanced sustainable value creation by improving the incentive system, i.e., business model rules, laws, etc., to stimulate value creation, constrain power, and offset value transfers by elite business models.
		(b) Formulate broad short-run regulations for *macroeconomic measures* (both monetary and fiscal) aimed at economic stabilization by managing both aggregate supply and demand along with controlling money supply to support long-run *institutional and (de)regulatory measures*.
(iii)	**Elite transformational leadership: 'Elite institutional change bargain'** (Political and knowledge elite transformational leadership)	(a) Utilize elite transformational leadership to resolve intra-elite contests via elite bargains (that include offsets) to implement institutional and (de)regulatory measures for the incentive system (particularly business model rules) and for the regulations governing (monetary, fiscal) macroeconomic measures to *constrain* value transfers; secure the execution of the elite bargains.
		(b) Utilize elite transformational leadership to resolve intra-elite contests via elite bargains (that include offsets) to implement institutional and (de)regulatory measures for the incentive system (particularly business model rules) and for the regulations governing (monetary, fiscal) macroeconomic measures to *enable* value creation; secure the execution of the elite bargains.

The ETED's main policy theme is that value creation models should replace those of value extraction, and so A Weighted Structural Reform Framework for policy (Table 7.1) aims to address Olson's complaint about perverse incentives. A key focus is on identifying, weighting, and offsetting extractive transfers, while phasing out as many of these as possible. What about incentivizing value creation? While also evidently desirable, policymakers must tread carefully here given the baked in knowledge asymmetries. It is very hard for those not in the business arena, for those not facing uncertainty, to know, much less to grasp *a priori*, the source of value—where and by whose agency it will emerge. This includes the need for making a meticulous distinction between the rationales for regulation and deregulation and when they create or transfer value.

In *Over Ruled: The Human Toll of Too Much Law* (2024), Supreme Court Justice Neil Gorsuch, alongside Janie Nitze, illustrate how legal complexity strains the lives of ordinary citizens. Stigler's theory of regulation considers "the potential uses of public resources and powers to improve the economic status of economic groups" (1971, p. 3), pointing to elite preferences for value transfers through the reduction of compe-

tition. As a result, over-regulation explains falls in productivity growth, "a matter of great concern to policymakers, associated as it is with inflation, unemployment, and declining real wage growth" (Gray, 1987, p. 998). In such scenarios, deregulation is a policy choice that benefits both the public (Winston, 1993, p. 1284) as well as many of the incumbents that at one time had sought regulatory rents only for these to dissipate (Peltzman, Levine, & Noll, 1989). Nevertheless, in a complex adaptive system nothing is straightforward and both power-law distributions and reversals are the norm, as is exemplified by the case of the US airline industry. After the Airline Deregulation Act of 1978, competition rose and prices fell, spectacularly so for a time (much to the chagrin of Thiel and Masters, critical of average ticket prices of US$ 178 yielding only 37 cents profits for carriers, 2014, p. 23). Some companies experienced hardships, and in the longer run, mergers resulted in oligopolistic consolidation (i.e., American, United, Delta, and Southwest controlling 80% of the market), market dominance that is viewed by some as being positive "monopolistic competition" (Wolla & Backus, 2018; see the origin of the concept in Chamberlin, 1933/1949). Conversely, in some other cases, deregulation has quickly led to business models that drastically harm consumer welfare as well as overall economic efficiency:

> Compared to utilities in states that stayed regulated, deregulated utilities realized higher prices but lower average and marginal costs. Overall, markups increased substantially. Our findings are consistent with the exercise of market power in deregulated markets. Generation facilities were able to charge prices at substantial markups above costs, and the vertical separation of generation and retail allowed for additional price increases due to double marginalization. (MacKay & Mercadal, (2022, p. 43)

While shifting elite preferences about regulation are explained by the elite circulation dynamics that emerge from elite intra-competition and division of value strategies, policymakers must transcend these considerations and rigorously assess the value creation and transfers associated with each specific piece of regulation or deregulation. One the one hand, their calculations must factor in the administrative and bureaucratic costs of regulation (see Gray, 1987, or the farming protests against "overbearing EU regulations", Cokelaere & Brzeziński, 2024). On the other hand, when considering anti-trust regulations and faced with the theory of "contestable markets" and other neoliberal arguments (such as the "domination of many industries by a few giants with very high profits" comes from "the success of the few firms that were the most efficient ones in the industry which grew and displaced their less efficient rivals", Kotz, 2015, p. 12), their decisions must factor in power's ability to convert 'political economy know-how' into profits (see Figure 4.1); The Elite Business Model Lifecycle and its 'value transfers replace value creation at maturity' conjecture; and the 'elite power vs value creation gap' hypothesis (see Figure 4.5). In brief, either regulation or deregulation may create value and policymakers must recognize and make judgments on which value creation/transfer paradigm applies in each case.

Once there is evidence of value creation for a specific business model or industry, policymakers should jump in and provide institutional support through (de)regulation, eliminating (or establishing) barriers to entry, limited and targeted transfers like subsidies or state procurement, or even by involving the narrative market. Policies work when they strive to make an impact in the context of intra-elite contests (Sections 3.3.1 and 3.3.2). The two subsequent frameworks in the weighted policymaking set (Table 8.2 and Table 8.3) respectively focus on the limits of that support and emphasize the constraints required for sustainable transfers and redistribution. It should be borne in mind that the gravitational center of leadership in the political economy shifts during the structural reform process, but that knowledge elites play a central role throughout, from assessment to formulation and even in the implementation stages, especially in their technical and legitimizing roles realized as constituent members of elite coalitions. Top-down institutional change implementation, even when driven by the core coalition and endorsed by the winning narratives, must be met with a modicum of bottom-up micro-to-meso elite transformational leadership at the business model level (see elite leadership varieties, Table 7.2) which, in line with the two-way causal effect model of the relationship between elites and institutions (Figure 3.2), is more probable under the pressure of competitive intra-elite contests.

The framework (in Table 7.1) starts with the (i) *impact assessment of value transfers*, identifying and weighting both sustainable and unsustainable transfers by using SVC measurements[156] and then capturing these dynamics, possibly via 'weighted transfers modeling' (Section 7.1.1). The methods used must ascribe value creation and transfers to elite business models in as many principal-stakeholder relationships as possible in the economy, specifying the transferees and transferors (the winners and losers) and projecting the probable developmental outcomes. The intellectual challenge here is considerable as is confirmed by a review of the business model of private equity. In their European Bank for Reconstruction and Development (EBRD) working paper, Biesinger, Bircan, and Ljungqvist "open up the black box of value creation in private equity with the help of confidential information on value creation plans and their implementation" and determine that "portfolio companies significantly improve operations (increasing employment, wages, labor productivity, and capital intensity), boost their top-line (increasing sales and market share while reducing price markups), engage in financial engineering (reducing their effective tax rate as they take advantage of tax shields by increasing leverage, and reducing the interest rate they pay on their debt), and reduce their working capital needs" (2020, pp. 5, 31).

156 A vast literature supports social or socio-economic impact assessments (SIA), "a hybrid" where social science meets "the policy-making process" by traversing "the usual disciplinary boundaries" to ascertain a "broad range of social consequences" in a "generally anticipatory" manner (Freudenburg, 1986, p. 451). The Structural Reform Framework for policy starts by assessing sustainable value impacts before formulating structural reforms and their implementation to target institutional change.

Conversely, in *These Are the Plunderers*, Morgenson and Rosner aim to demonstrate "how private equity runs—and wrecks—America" (2023).

The general understanding is that "interest groups affect both microeconomic and macroeconomic outcomes" (Coates, Heckelman, & Wilson, 2007, p. 377) via their agency in specific sectors such as finance (see Rajan & Zingales, 2003); the normative position is the *selection* of elites whose business models are most likely to bring about positive growth outcomes if offered incentives. Here, one cannot obviate a reference to Lewis (1954) on the "overwhelming evidence of spatial and sectoral disparities within countries" (Gollin, 2014, p. 86), to stress the requirement that the (ii) *formulation of institutional and (de)regulatory measures* discretely target every nook and cranny of the economy, including the governance of macroeconomic measures (both monetary and fiscal). Addressing a particular space of the economy means targeting its specific elite business models when their reliance on value transfers is excessive. Real world examples of measures that incentivize value creation are those that favor venture capital (see Armour & Cumming, 2006), freedom (see Friedman, 1962/2002), or trade (see Ricardo, 1817/1999), while measures that constrain bargaining power differentials might address monopolists (see Doctorow, 2022), "bottleneckers" in the professions (see Mellor & Carpenter, 2016), or crony capitalism (see Klein, Holmes, Foss, Terjesen, & Pepe, 2021). Once more, the strengthening of sustainable value creation occurs through the intra-elite dynamics (see Section 3.1) that shape the incentive system. Macroeconomic stabilization policies are also a robust incentive mechanism (especially during financial crises, election campaigns, or pandemics) and so those designing monetary and fiscal measures and their regulations, guidelines, and protocols should be thoroughly aware of their rent-seeking potential.

Finally, the impact assessment and policy formulation lead to action with (iii) *elite transformational leadership for the 'elite institutional change bargain'* to reform the incentive system. Here, elites will settle on narrowly targeted micro-policy interventions that nudge a set of elite business models towards higher value creation positions by deactivating their extractive transfers, and on sector-specific rules that incentivize value creation. While fiscal and monetary measures are minimized as policy tools, the bargain would include regulations and guidelines governing these to rid the political economy of the detritus of ingrained value transfers from Keynesian and monetary measures. Leadership in policymaking means instigating inclusive institutional change by resolving intra-elite contests through the 'elite institutional change bargain' mechanism. To be effective, such bargains must be predicated on the 'weight and offset value transfers' (holistic) implication that is derived from the three assumptions for socio-economic relations in this theory (set out in Figure A5.4a) and be cognizant of the political economy dynamics of particular firms and industries in relation to The Elite Business Model Lifecycle (see Figure A5.9a). Ideally weighted structural reforms are continuous, occur bargain by bargain, and, when successful (as shown in the outcome on the left side of Figure A5.9b), the elite business model lifecycle dynamic that emerges resembles the one depicted in Figure A5.9c. Here, the lines of tra-

jectory that represent sustainable value creation and power accumulation move concurrently, while the extractive transfers facilitated by the 'elite power vs value creation gap' (Section 2.2.2) remain modest.

The conceptual and technical aspects of integrating the SVC measurements of elite business models (such as the VCr) and the elite system (such as the EQr) into a working 'weighted transfers general equilibrium' macroeconomic model (WTGE) able to provide the necessary insight for the targeted and weighted structural reform of the incentive system aimed at the long run are remarkably difficult. Given the unpredictable nature of a complex adaptive system, this is the case because structural reforms can badly misfire. For instance, Palma (2014, p. 7) reviews "'premature' de-industrialisation, a phenomenon that has characterized Latin America since the beginning of the neo-liberal economic and political reforms, and concludes [s] that it contains important components of policy-induced 'uncreative destruction'". Reforms can get entangled in narratives as well as in cultural preferences and shifts. For instance, "Sephora Kids" is both a cultural and business phenomenon where girls at "the tender age of 11" develop a desire for high-end cosmetics and skincare products that their "favourite content creators, like Alix Earle or Meredith Duxbury, have used in their 'Get Ready With Me' videos" (Clark, 2024). Should policymakers consider this a value transfer requiring regulatory intervention? Also, for structural reform initiatives to overcome resistance (Fernandez & Rodrik, 1991; Tompson, 2002; Katz, 2024) and effect inclusive transformations or Schumpeterian creative destruction they require narrative packages around laws and rules crafted by knowledge elites that are evidence-based and properly weighted to truly optimize sustainable value creation. *The Financial Times* article, "Tencent Rocked by New Chinese Online Gaming Restrictions", describes a push to reform a business model that is considered extractive (again, of youth), resulting in the firm's shares (and those of its competitor, NetEase) to suffer "the sharpest one-day drop" in a decade and a half as the company's "promotions to reward consumers for consecutive days of play and account top-ups, [are] features which appear to have been directly targeted by the regulator" (White & Lockett, 2023). This micro-intervention denotes a clear assessment of the existence of extractive transfers by political and knowledge elites in China that is in line with Haidt's (2024) assertions of 'destructive' transfer-COST in *The Anxious Generation: How the Great Rewiring of Childhood is Causing an Epidemic of Mental Illness.*

Political economies are constituted around elite settlements (Khan, 2018)[157], pacts (Burton & Higley, 1987; O'Donnell & Schmitter, 1986), or bargains, that, as Dercon (2022) points out, are often not articulated but must be deduced. All of these affect

157 These three notions as used indistinctively for this work's purposes, but as Khan (2018, pp. 635, 653) points out, there are particular variations amongst them, with the political settlement framework focusing on "the distribution of organizational power" in the political economy, while the elite pact focusing on cohesion has become "the definition of choice for researchers trying to analyze transitions from conflict to peace and the sustainability of a social order".

macro-level and developmental outcomes (Burton & Higley, 1987; Khan, 2010). If lucidly spelled out, along with the winners and losers and their respective payoffs, policymakers, members of the elite, as well as non-elites, might join calls in the narrative market for transformation towards sustainable value creation models through institutional change on a bargain-by-bargain basis. Constructive public debates put the onus on articulating and incentivizing value creation, phasing out transfers, equalizing bargaining power, and strengthening both intra-elite contests and social cohesion. Still, in the end, bargains are explicitly weighted and will contain compromises on value transfers and possibly on the scale of structural reform. The coordination capacity requirements of structural policy processes can be daunting. Nassif, Feijó, and Araújo provide an illustration:

> the Brazilian government could use the state's purchasing policy, for example, to boost and construct dynamic comparative advantages in industries such as shipbuilding, machinery and equipment for extracting oil, machinery and equipment associated with paper and cellulose, petrochemicals, pharmaceutical products, etc. [. . .] (i) policies of supply-side stimuli should be balanced by demand-side ones; and (ii) long-term policies, such as industrial and technological policies, infrastructure, education, etc., will not perform well if they are not well coordinated with other economic institutions, notably short-term macroeconomic policies. (2015, p. 1328)

Amsden (2001, pp. 289, 293) shows the importance of "getting the institutions 'right'" and the limits of standardized economic development policies that focus on "getting the prices 'right'". Still, and as stressed in A Weighted Structural Reform Framework for policy (Table 7.1), a vital point for policymaking is that broad fiscal and monetary policies are short-run fixes that can distort or even destroy pricing and other incentive structures for value creation, end up diminishing the production function, and, when overstressed, are incompatible with long-term, sustainable economic growth. Broad and sweeping interventions that adjust monetary mass and government expenditure to stimulate or dampen aggregate supply and demand and master fluctuations are shortsighted if they conceptually neglect—particularly if they intellectually belittle the role of risk and the undertaking of uncertainty in development—how value is created and why transfers are extractive. Given the superior bargaining power of elites in the political economy, productive non-elites in both the middle and lower classes regularly foot the bill for such fiscal and monetary transfers.

Arguably, because it constitutes (in reference to Kuhn, 1962) "the reigning paradigm" (Nickles, 2002, p. 2), mainstream monetary and fiscal policy is now consistently misused and should be in the crosshairs of any elite theory of economic development. As is explained by Kalecki (1942), it has long been understood that government spending increases business profits, often at the expense of present and future taxpayers. The quandary of applying the orthodox economic toolkit with its emphasis on fiscal measures is articulated in *The Financial Times* headline: "The EU Faces Brutal Choices Over Coronavirus Corporate Rescue Money: Member States Will Need to Decide Which Companies to Support and Which to Allow to Fail" (Fleming & Espinoza, 2021).

Since handouts are *de facto* rewards for specific elite business models paid for by the unrewarded, they alter the incentive system. As such, at the very least they should be narrow and provided on the condition of targeted structural adjustments that support value creators in the long run, enabling economies to not only withstand economic downturns but to emerge from them in a stronger state. Indiscriminate payments or helicopter money, on the other hand, will invariably culminate in rent seeking (again, the COVID-19 'lifeline' details provided by Coyne, Duncan, and Hall, 2021, are revealing) and are often simply assorted types of extraction from non-elites. In the context of "America's war on the young", Scott Galloway (2024) enumerates the transfers to older "cohorts" (already the beneficiaries of "the extraordinary post-war economic boom of the 20th century"), who "have pulled the ladder up behind them", thus leaving the increasingly impoverished non-elite young to foot the bill for items such as rising debt repayments and inflation.[158] There is a need for think tanks, universities, public intellectuals, and other dedicated knowledge elites to engage in the task of understanding the nuts and bolts of elite business models that use value transfers, especially those associated with mainstream policies. Only when their implicit weighting is clear can explicitly weighted policies (based on SVC or other measurements) provide the right incentives for the right elite business models—targeted micro-policy measures that liberate for the long run the forces of sustainable value creation held back by extractive models commanding 'the extraordinary lever' in a particular nook and cranny of the economy. While data, intelligence, and knowledge asymmetries are obstacles to this task, quality work already exists that is available to policymakers and political elites.

For instance, the journalists from Africa Uncensored "investigate, expose and empower" with their goal "to show Africa as it really is".[159] The SOAS Anti-Corruption Evidence (ACE) research consortium at the University of London produces work "to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption"[160]. The fourteen academics at Credit Slips "blog on all things about credit, bankruptcy, consumers, and financial institutions" and "discuss and debate issues not just for specialists but for anyone who cares about creating good policies in these areas".[161] At RemedyFest, hosted by Bloomberg Beta and run by Y Combinator, "a wide range of leaders, thinkers, and doers" mull over "what should the responses be to Big Tech's dominance".[162] The Electronic Frontier Foundation, with its

158 In this regard, the 'Next Generation Value Creation Barometer' has been "jointly designed by the St.Gallen Symposium and the EQx team to provide insights on key dimensions of intergenerational equity (beyond climate change, as in Stern, 2006) and how the value creation business models of different countries compare in this regard. The Barometer uses five equally weighted categories, comprising a total of [33] component Indicators [. . .] as measurements to highlight intergenerational relationships, both in terms of value creation and extractive transfers" (Rüdiger & Casas-Klett, 2022, p. 5).

159 See: https://africauncensored.online

160 See: https://ace.soas.ac.uk/what-is-ace/

161 See: https://www.creditslips.org/creditslips/

162 See: https://www.ycombinator.com/blog/content/files/2024/06/RemedyFest-Final-Report.pdf

mandate for "digital privacy, free speech, and innovation", applauded when Slack launched a "best-practice privacy and security" product feature that provided "free workspace admins the option to automatically delete all messages older than 90 days".[163] Further removed from the structures of the status quo one finds "The American Economic Liberties Project launched in February 2020 to help translate the intellectual victories of the anti-monopoly movement into momentum towards concrete, wide-ranging policy changes that begin to address today's crisis of concentrated economic power."[164] Truly engaged knowledge elites supply the understanding necessary to design incentives that tilt intra-elite contests to benefit value creation models. Of high relevance now is the need for algorithm transparency that shines light on the "black box society" (Pasquale, 2015) and contributes to the rebalancing of the power differential between elite AI algorithm owners and the stakeholder users that supply the data (see hypothesis AI_H1, 'AI augments non-elite power and causes the end of elites', Table E.2).

A highly effective course of action is for business elites themselves (with 'money') to drive narratives (and garner the power of 'mind') for political engagement (that provides 'might') and negotiations with institutions for structural reforms. For instance, John Arnold, a Texas billionaire, has "antagonized public-employee unions and pharmaceutical firms with campaigns to reform government-funded pensions and bring down high drug prices" and now "has a new foe: big-hospital monopolies" with *The Wall Street Journal* recounting how he is funding Fairmark Partners LLP, a law firm leading lawsuits that eventually seek to stop extractive value transfers effected by market power:

> Hospital systems with facilities that dominate one or more local markets gain power to raise prices across all their markets—even where there is competition—by insisting on terms with insurance companies to include every market or none, economists say. Such terms are known as all-or-nothing. Insurers, which negotiate prices on behalf of consumers, can't balk because they need multiple hospital markets to be included under health plans sold to employers with workers scattered across wide areas. (Evans, 2022)

As is repeatedly emphasized in this work, great elite coalitions (see the conjecture on development in Section 1.3.3) running sustainable value creation business models (with high VCr scores) are critical in driving inclusive and weighted structural reforms, as only establishment players possess inside knowledge of the practices that should be targeted to bring about the cessation of extractive transfers.

Structural reform policies that target elite business model rules to boost growth and development must address the numerous sectors of the economy and do so across geographies. The early proponents of structural change recognized this (Kaldor, 1970) and focused on the importance of regional policies. All in all, reforms require heavy investments in data and knowledge to first produce the impact assessments of value

163 See: https://www.eff.org/deeplinks/2022/09/victory-slack-offers-retention-settings-free-workspaces
164 See: https://www.economicliberties.us/about/#

transfers (with SVC measurements, plausible WTGE models), and then establish a creative brain trust to formulate credible institutional change proposals (see Table 7.1). The political elite eventually plays a decisive role here; the state capacity it controls is deemed essential for development (Besley & Persson, 2010; Zhang, 2022) because it facilitates assessment and policy formulation work, acts as a balance to business elites, and is the agency that implements the targeted interventions to realize policy actions aiming at the long run. As Evans notes, "aspiration without the requisite state capacity can lead to bungling that undercuts even the existing bases of comparative advantage" (1995, p. 10). Acemoglu, García-Jimeno, and Robinson (2015) discuss the positive links between state capacity and development, an idea latent in Hobbes (1651/2002) and "Weberian rational bureaucracy" that came to the fore with the "East Asian Miracle" (Johnson, 1982) and that has since been further strengthened (e.g., by Herbst, 2000; Centeno, 2002; Michalopoulos & Papaioannou, 2013); they then show the importance of focusing on the nooks and crannies since "local state presence is indeed a first-order determinant of current prosperity" along with related "network effects" (2015, pp. 2364, 2405). In the case of China, Aghion, Dewatripont, Du, Harrison, and Legros (2015, p. 1) demonstrate "that industrial policies allocated to competitive sectors or that foster competition in a sector increase productivity growth", while Amsden shows that even the "early industrializers", with Britain at the forefront, relied on "government intervention" (2001, p. 285).

Because mainstream fiscal and monetary policies do not resolve but more often than not intensify problems such as secular stagnation, market dominance, and uncontrolled pork and subsidies that bake in inefficiencies, the time would seem ripe for a paradigm shift in policymaking. Does China's tight grip on the competition rules for Internet firms provide a touchstone for how to weight value transfers? Angela Zhang, an expert on Chinese antitrust legislation at the University of Hong Kong, highlights the practices targeted by these measures: "false advertising, fraudulent online reviews, unfair competition, interoperability issues, data protection and consumer privacy issues" (Shepherd, 2021). Any such top-down reforms of the incentive system—even if targeted—smack of industrial policy, an approach that carries negative connotations in so many quarters that the OECD has published articles like "Industrial Policy: Not a Bad Word" (Primi, 2015). After all, List's (1841/2011) anti-laissez-faire interventionism (see Levi-Faur, 1997) was considered unorthodox by many economists. Today, sector-specific "industrial policy is experiencing a global resurgence" (Mazzucato & Rodrik, 2023), and, according to *The Harvard Business Review*, "The New Era of Industrial Policy Is Here" (Shih, 2023), as the paradigm started to be embraced in earnest by the Biden and Trump Administrations in something of a volte-face for the US. The EU Commission has also relaxed its rules for state aid, and since March 2022, approximately euro 650 billion has been handed out for "the manufacturing of strategic equipment" such as solar panels or batteries, with about 50% of the subsidized firms being German and about 30% French (Chan, 2023 as cited in Blake, 2023, p. 85). Nonetheless, political elites in countries with a continuous and strong structural reform tradition grounded in state capacity like Korea or Singapore have an experience advantage when designing policies that address elite

business model value creation and constrain sterile transfers. What matters to the elite theory is, for instance, the extent to which a Chinese *Five-Year Plan for National Economic and Social Development*, the 15th of which will run from 2026–2030,[165] is informed by sustainable value creation. More generally, and obliquely referencing Milo's understanding of natural and social systems in *Good Enough: The Tolerance of Mediocrity in Nature and Society* (2019), how does the elite system handle business models that are simply '*not* good enough' in sustainable value creation terms?

Since transfers compromise general welfare, weighting and offsetting necessitates transformational leadership that firmly confronts reactionary elites and *contra natura* rejects prudent mediocrity to decisively boost inclusive economic development. This means structural reforms based on elite bargains that utilize intra-elite contests to cull extractive rent seeking and incentivize firm-level sustainable value creation.

7.2 Firm-level implications of sustainable value creation

The ETED holds that elite business models antecede institutional change in the two-way causal effect relationship between elites and institutions (Figure 3.2). That implies, for instance, that both the transformational 1979 Employee Retirement Income Security Act's (ERISA) "prudent man", known for an "unprecedented increase in money flowing into the venture capital sector" (Gompers, 1994, p. 2; see also Gompers, Lerner, Blair, & Hellmann, 1998), and the US Telecommunications Act of 1996 had to be driven by 'Silicon Valley', once a minor emergent elite coalition in the American national elite system. The coalition added members from business, political, and knowledge elites: technology visionaries and entrepreneurs, venture capitalists and Wall Street bankers, higher-education leaders in California, officials in the President's cabinet, regulatory agency chiefs, the military-industrial complex, and others poised to benefit from the value creation and appropriation associated with the business models enabled by such institutional change. Elite coordination leadership is complemented by business model leadership to monetize the new technologies and tilt the power balance accordingly within the coalition towards those that have an action and imagination advantage—the business elites in this case. This work argues that it is in the interest of all elite business model beneficiaries and stakeholders to make the advantages brought about by such leadership sustainable in the long run in terms of value and risk creation, meaning that there should be strategic restraint on 'value appropriated but *not* created' (Figure 2.11), 'cost created but *not* borne' (Figure A5.5a),

165 Note a version of the official declaration: "the economic planner will revolve around significant theoretical and practical issues concerning promoting the Chinese modernization to carry out intensive and in-depth research work, explore new concepts and measures, focus on solving major bottleneck [sic], and identify key tasks that will be significant for the overall planning in the 2026-2030 period" (Xinhua, 2023).

'risk originated but *negative* value *not* appropriated', and 'risk *not* originated but value appropriated' (Figure 6.9).

This section on the firm-level implications of the inquiry relies on a series of management frameworks primarily designed to elucidate the practice of sustainable value creation. "A management framework (like the Business Model Canvas or SWOT) is a combination of interlinked items that support a particular approach to a specific objective" (Budler & Trkman, 2023, p. 173). 'The Sustainable Value Matrix' and 'The Sustainable Finance Matrix' (Figures 7.2 and 7.3) are frameworks for managers and investors respectively. Ultimately, their aim is to support both elite and all other types of business model transformation.

The starting point is a consideration of the sustainability implications of value creation in the organization, the first focus being on management (7.2.1), and the second on corporate boards and governance (7.2.2). The small social unit, including at the intra-firm level, is then assessed for internal 'producers' and 'takers' based on the value creation and transfer ontology (7.2.3). An important discussion then follows on sustainable elite leadership with the introduction of a typology on the different varieties included in this work (7.2.4). The practical implications for investors are next considered (7.2.5), before the section ends by accounting for the value creation strategies of the principal vs stakeholders (7.2.6). Underlying all of the ideas discussed is the premise that sustainable value creation is a discrete factor that helps to explain organizational behavior, business strategy, and firm performance, and is even mirrored in the smallest social units like the community or the family.

7.2.1 Implications of sustainable value creation for management

This inquiry's emphasis on economic development focuses its attention on the aggregate meso-level elite system, the transmission channel that integrates the micro-level firm into macro-level economic analysis (see Figure 3.8). In Chapter 6, several SVC measurements were advanced. The EQx is the operationalization of meso-level sustainable value creation, with elite quality being relevant to macro-level performance. In parallel, the claim was made that any business model can be assessed at the micro-level by using equivalent measurements like the VCr. Signaling theory is used in the management literature to understand how organizations convey information to their various stakeholders (Connelly, Certo, Ireland, & Reutzel, 2011). In Bitektine's "theory of social judgments of organizations", organizational legitimacy, reputation, and status are "organizational resources" (2011, p. 151) and he references literature that shows how firms gain legitimacy through "discursive means", i.e., narratives (e.g., Golant & Sillince, 2007; Suddaby & Greenwood, 2005). This section, and the next on corporate governance, are anchored by aspects of signaling and legitimacy theory to further embed the micro-level facets of the ETED within the orbit of corporate social responsibility (CSR), and environmental, social, and governance (ESG).

CSR and lobbying, the latter also sometimes referred to as corporate political activity (CPA), are analytically joined in the strategic management literature using a synthesis known as "nonmarket strategy research" (Mellahi, Frynas, Sun, & Siegel, 2016). Strategic agency in the non-market and narrative market arenas of the political economy requires establishing legitimacy, a process that is never straightforward for management. Accordingly, ESG initiatives also include non-financial data and sustainability KPIs for "Powering financial markets to deliver a sustainable future" (see, www.esgbook.com). As is detailed later in this chapter, when academics examine these claims there can be unpleasant surprises—in the case of Refinitiv (now LSEG Data & Analytics), a leading ESG ratings supplier, an "(un)predictable past" (Berg, Fabisik, & Sautner, 2021) refers to inconsistent and duplicitous data. These and other issues led Glenn Hegar, the Texas comptroller of public accounts, to complain that "the ESG movement has produced an opaque and perverse system in which some financial companies no longer make decisions in the best interests of their shareholders or their clients" (Temple-West & Masters, 2022). Signal failure, delegitimization, and a plethora of other negative issues associated with ESG and CSR are identified in the literature and further expanded upon in the next section on corporate governance. Such weaknesses have resulted in novel, compelling, and conceptually refined proposals like Edmans' "Rational Sustainability" that "includes everything that improves long-term value" (2024, p. 15). For this elite theory, it is critical that existing ESG efforts and improved sustainability initiatives theoretically address the larger economic development perspective.

For instance, how does a privileged elite business model signal the weighting and hence the legitimacy of the extractive stage of an 'alternating value extraction and creation' cycle in an industry that is poised to create great value for all through future positive externalities? Like the discussion of value creation optima in the EQx (Section 6.4.2) or the formulation of structural reform policies (Section 7.1.5), weighting to properly articulate offsets must be sought for such models, as without extractive rents (such as those enabled by monopolies, subsidies, or regulations) firms might not have the resources or financial slack to invest in value creation (see, for example, the U-shaped relationship between slack and innovation in Nohria & Gulati, 1996). At times, a firm first develops an innovative technology (value creation), files patents or otherwise secures a monopoly on its business model, and thereafter prices the technology significantly higher than under the premises of free entry and competition. This is the logic behind the observation that "data-opolies can extract wealth by getting personal data without having to pay for the data's fair market value" (Stucke, 2018). Silicon Valley's Big Tech is highly adept at winning battles in the non-market arena (e.g., the 2001 settlement of the antitrust case that nullified the District Court's mandate to breakup Microsoft, thus permitting it to remain intact as a single entity) and the narrative market (e.g., the doctrine of "dynamic competition" articulated by Petit and Teece, 2021) to legitimize their oligopolistic positions and the ensuing value transfers, and is now poised to repeat the feat in the mother of all intra-elite contests that is playing out over AI. Considering the above and since every successful business

model in the real economy incorporates both value creation and extractive transfer-IN (as is graphically represented by the 'value spectrum', see Figures 2.10, 2.11, and A5.5a), how should a sustainable value creation framework for management be modeled? Does Edmans' observation that "rational sustainability is about value creation, not politics" (2024, p. 9) obviate the reality of the license to operate; and is not every business model anchored in institutional constraints that require political non-market agency, with the more elite requiring legally sanctioned permissions for value transfers given their association with value creation (see the realist inference, Figure 8.7)? Should Mazzucato's (2019) "value of everything" actually be weighted and signaled? The SVC measurements (see equations 4.1 and 4.2 in Table 2.4) are designed to provide the basic elements to address these quantification issues.

Value Creation Position (VCp) scores include two of the three main value categories discussed: value created and appropriated (net value creation); and value appropriated but *not* created (extractive value transfer-IN). Value Creation Rating (VCr) scores add and quantify the third value category: value created but *not* appropriated (transfer-OUT). When the more comprehensive VCr sustainable value measurement scores are matched against P&L performance benchmarks like profits (residual income), fresh perspectives materialize. A performance framework for management at the firm level is operationalized here as The Sustainable Value Matrix (presented in Figure 7.2). The matrix has two constituent variables that represent firm performance and sustainable value creation, in this case, the VCr (on the x-axis) and profits (on the y-axis).

The management framework provides a classification schema for the purposes of understanding and analyzing the relationship between performance and sustainability at the firm level. If sustainable value creation is high *and* the firm is profitable, the principal qualifies as a 'sustainable' firm (quadrant 1). The Sustainable Value Matrix places a firm that creates value (as reflected by a high VCr) but is unprofitable (due to the inability of the model to appropriate at least part of the significant value it creates) in the 'naïve' firm category (quadrant 2) of the framework. Business models with low sustainable value creation are extractive, but if adept at value appropriation, especially from stakeholders (value transfer-IN), and hence profitable, they belong in the 'rentier' category (quadrant 3). Firms that are both extractive and unprofitable are 'living-dead'[166] firms (quadrant 4) that are in the business of destroying financial capital and value and will not prevail.[167]

Investors and consultants can support firms that are 'naïve' and "(un-)capturing sustainable value" (see Wagner & Kabalska, 2023) by upgrading their appropriation ca-

166 Note that the research on "zombie" organizations plagued by debt and inefficiencies (Ahearne & Shinada, 2005; Caballero, Hoshi, & Kashyap, 2008) referenced earlier solely considers firm performance (profits)—not sustainability or sustainable value creation.

167 Note that the 'destructive' off-P&L transfer-COST (see Figures 6.7 and A5.5a) is currently not part of the SVC measurements and hence The Sustainable Value Matrix does not fully capture the consequences of value destruction in its quadrants.

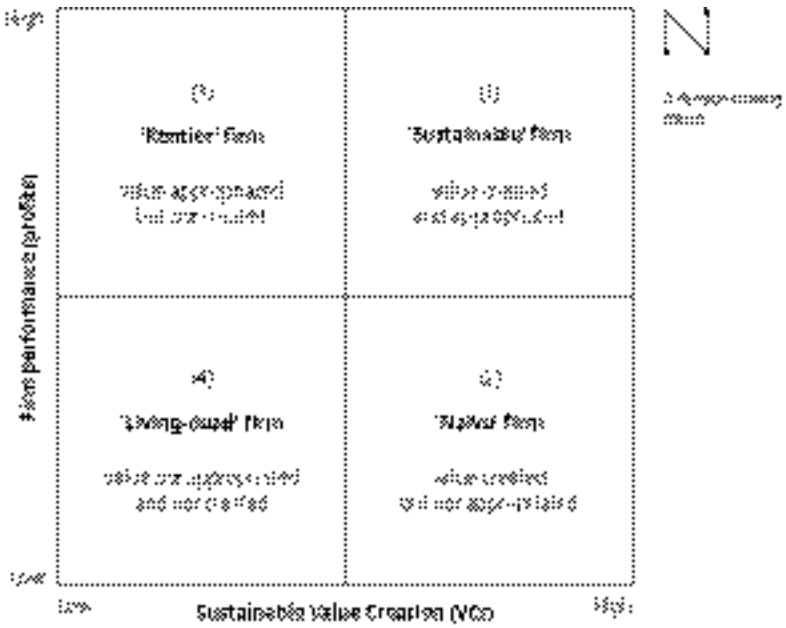

Figure 7.2: The Sustainable Value Matrix: A performance framework for management.[168]

pabilities (value created but *not* appropriated might be a political economy non-market issue that is fixable with lobbying) and transforming them into 'sustainable' firms. They can also assist 'rentier' firms in a journey towards increased sustainable value creation. Backing a 'living-dead' firm across two parallel journeys—to profits *and* to sustainability—is, however, a tall order. How The Sustainable Value Matrix (Figure 7.2) is extended to support the analysis of investments is explored in Section 7.2.5 and visualized in The Sustainable Finance Matrix (Figure 7.3). For a debt and equity valuation perspective, refer to The Sustainable Valuations Matrix framework for investors and sustainable finance, and to the explanations at the end of Section 7.2.5 (see also Figure A5.7).

168 Out of the thirteen (13) matrix frameworks in this inquiry, the nine (9) that describe the political economy or its states have the quadrant annotated as (1)/(i) placed in the lower left and quadrant (4)/(iv) in the upper right. Out of these, four (4) are 'political economy classification' matrices and use Roman numerals—as in Figures 6.2, 6.4, 6.8, and A5.2—to depict their quadrants. Further to these descriptive classifications are five (5) 'political economy prescriptive' matrices that express a desirable development path—as in Figures 1.1, 6.5, 6.8, 7.5, and 8.4—and use Arabic numerals where quadrant (1) indicates the less desirable state, one which can evolve and culminate in the ideal quadrant (4) with transformational elite leadership. There are also four (4) matrix frameworks—Figures 7.2, 7.3, 7.4, and A5.7—designed to be used for 'elite decision-making'. Due to their micro-level prescriptive quality (for strategy, investment, etc.) their quadrant numbering follows a reverse order: quadrant (1) is placed in the upper right of the matrix as the normative benchmark, while quadrant (4) indicates the least desirable state and is placed in the lower left.

Milton Friedman's famous op-ed for *The New York Times* was entitled "The Social Responsibility of Business is to Increase its Profits" (1970). The value creation-appropriation (VCA) framework and bargaining power differentials in the political economy (see Chapter 2) strongly qualify this view. In this work, firms, especially those running elite business models, contribute to society both through value appropriation (evidenced by profits) and sustainable value creation (evidenced by SVC measurements). Many firms are both profitable and 'sustainable' (quadrant 1), providing returns to shareholders while offering higher wages, innovation spillovers, economic growth, net zero carbon footprints, and an array of other positive externalities and forms of value for their stakeholders. This is consistent with Friedman's position that 'sustainable' firms and their principals (including elites) require sufficient profits (and some transfer-IN that will be weighted and offset) to compensate for risks taken and to continue investing in value creation. However, not all profitable firms offset their extraction and are thus sustainable; those in the 'rentier' category (quadrant 3) hinder economic development through their disproportionate transfer-IN (which also includes 'extractive' transfer-COST, see the 'value spectrum' of Figure A5.5a and the discussion in Section 8.2.1) and distort the incentive system.

Residual income (profits) generated through the 'knowledge' bargaining power source (see Figure 2.3) best aligns sustainability, social responsibility, and inclusivity concerns with capital allocation and investor perspectives (see Section 7.2.5). Signaling theory can be helpful in reducing information asymmetries (Spence, 1973) and allowing management to convey to the market and multiple stakeholders (Connelly, Certo, Ireland, & Reutzel, 2011) their sustainability commitments (Bae, Masud, & Kim, 2018). With The Sustainable Value Matrix, management signals to shareholders and stakeholders its sustainable value creation in relation to profits, potentially a prime source of legitimacy for the organization.

7.2.2 Implications of sustainable value creation for governance

By being relevant to stakeholders such as investors or regulators, the operationalization of sustainable value creation at the firm level (e.g., the VCr), which parallels elite quality at the meso-level, invariably moves this inquiry into the realms of corporate governance, further strengthening the links to CSR and ESG considerations. The underlying mandate is for boards to consider value creation along with the maximization of shareholder value (a variety of proposals already exist, e.g., Thomsen, 2020). Consistent with the signaling perspective reviewed above on "social judgments of organizations" (Bitektine, 2011) and "legitimacy as a social judgement" (Ashforth & Gibbs, 1990, p. 177), a foundation for the CSR/ESG discourse is crystalized in Bénabou and Tirole's words: "Society's demands for individual and corporate social responsibility as alternative responses to market and distributive failures are becoming increasingly prominent" (2010, p. 1). While management can position the firm in The

Sustainable Value Matrix (Figure 7.2), the ultimate responsibility of a firm in many key matters related to sustainability resides with its board and corporate governance structure, "the system by which companies are directed and controlled" (Cadbury, 1992, p. 14). One might posit that generally speaking, organizational CSR/ESG responses to political and social demands for legitimacy are a matter primarily addressed by top managers, with board support forthcoming in the non-market and narrative market arenas, the latter being particularly relevant in the context of intra-elite contests.

A driving notion behind the CSR/ESG literature is to achieve an alignment between what is good for the firm (principals) with what is good for society (stakeholders). At the same time, boards are sensitive to the criticism and uncertainty that surrounds existing corporate governance, CSR, and ESG theory and its practice frameworks and metrics. Many of the charges leveled against the field are of material concern. Is sustainability practice substantive or symbolic (Ashforth & Gibbs, 1990) and simply discursive (Biermann et al., 2022)? Edmans (2020) notes that sustainability is a bland label, a generic term containing no information and simply signifying the long term, making all firms that persevere, no matter how successfully, somewhat 'sustainable'. There is a barrage of criticism concerning the ineffectiveness of these approaches during global crises, their failure to deliver on grand challenges, of being a device for greenwashing, of oversimplifying social problems, of being inconsistent, of embodying conflicts of interest, of lacking comprehensiveness, and of being unrelated to actual performance (Deakin & Konzelmann, 2003; Letza, Sun, & Kirkbride, 2004; Williams, 2004; Yeoh, 2010; Clarke, 2010; Liang & Renneboog, 2017; Eccles & Stroehle, 2018 (for an overview of the issues, see Casas-Klett & Nerlinger, 2023, pp. 35–36). Perhaps most controversial is the lack of integrity associated with ESG ratings exemplified by the retroactive rewriting of scores via "unannounced data modifications" so that "rankings and classifications of firms into ESG quantiles change significantly" (Berg, Fabisik, & Sautner, 2021, p. 22).

This inquiry gives voice to an issue, one that is usually—and often intendedly—not on the radar screens of boards: value transfers as determinants of economic and human development. Are such transfers truly of secondary importance to corporate governance and, if so, how critical a blind spot are they in current CSR/ESG practice? This can be illustrated with a case provided by Acemoglu and Robinson (2019b, p. 19) who reference an OECD report on the costs (transfer-IN from society) of Mexico's telecommunications monopoly (an SVC metric): US$ 129.2 billion from 2005–2009 (about 1.8% of the country's annual GDP). What amount of ESG, CSR, or philanthropy can ever compensate for what some economists (Tullock, 1967; Tollison, 1982) have termed net social losses, resource misallocations, or the deadweight of value extractive elite business models? In contrast, business models that create value without resorting to transfers might be conceived of as executing the 'ultimate' form of sustainability, to the point where compensatory or charitable engagements become redundant. For one of the greatest individual value creators in history "there is no public record of Mr. Jobs giving money to charity", as this was seen as a "distraction" to the Apple founder with a "single-minded focus on work over philanthropy" (Sorkin, 2011). Sus-

tainable value creation requires, provides for, *and* weights and qualifies Friedman's profits (1970). Any board supplying evidence of high sustainable value creation can stop all charitable giving in good conscience as it is overseeing a business model that represents philanthropy of the highest caliber by taking the human and economic development perspective into account. As is depicted in Figure A5.4b, this elite theory and its core assumptions views sustainability and sustainable governance holistically (as in the 'value is created or transferred' ontological assumption and the holistic 'weight and offset value transfers' implication) and constructively (as in the 'bona fide value appropriation' positive assumption and the 'revenue is value creation unless value transfer is proven' constructive implication) because of its business model focus on *how* organizations generate residual income (profits).

Bénabou and Tirole, ask: "who, among the state, stakeholders and firms, is best placed to address market failures and inequality?" (2010, p. 16). Given the examined endogenous nature of institutional change and the bargaining power differentials of elites, this inquiry provides the means to answer this *who* question. For instance, it places the primary responsibility for elite system transformational leadership on the core elite coalition. The beneficiaries of elite coalitions then have ownership over inclusive transformations in the nooks and crannies of the economic landscape in which they operate. In practical, prescriptive terms, transformational leadership is within the purview of board directors who can provide guidance to management on performance objectives consistent with sustainable value creation. For board directors concerned about legitimacy and positive social behavior that take a view on general development beyond mainstream CSR/ESG frameworks and metrics, the way forward is unambiguous: direct the firm towards maximizing residual income generation (Friedman's profits) through value creation and risk origination business model activities that do not rely on power and extraction (value transfer-IN), and ideally generate munificent positive externalities (value transfer-OUT). Then, aggressively signal high sustainable value creation positions and ratings to the public, customers, shareholders, regulators, and all other stakeholders.

7.2.3 Implications of sustainable value creation inside firms and other micro-level social units

All elite systems contain an assortment of coalitions of both high and low quality, running extractive and inclusive value creation elite business models. This variance also holds true inside any social unit and is intuitive to anyone who looks at their own family: some members are 'producers' while others are 'takers', living out their existence at different degrees of parasitism on the back of a family unit. Works of literature take on this theme, Dostoyevsky's *Crime and Punishment* (1866/1917) being a notable example: Semyon Zakharovitch Marmeladov trades his clerical government job for the bottle, while his wife Katerina Ivanovna is forced to raise her three children

without income, all of which leads her eldest 18-year-old daughter, Sonya, into prostitution to bring food to the family table. Of course, ascertaining who is a 'producer' and who is a 'taker'—and in what proportion—is not always straightforward.

Was F.C. Barcelona's Leo Messi a value 'producer', with his record number of goals and trophies, or did he become a 'taker', due to his exorbitant compensation and style of play that forced his teammates to adapt to a system that allowed his genius to flourish, perhaps preempting the development of the next generation of players from *La Masia*? The reasons for Barça's current state of financial distress and potential ruin that became evident after Messi's departure in 2021 are multiple and well understood by many supporters and those who follow the business of football. In another example, Musk decided to slash about 85% of the workforce because: "Twitter had a 'lot of people doing things that didn't seem to have a lot of value'" (Dean, 2023). Additionally, "more than 100,000 tech jobs across more than 360 companies have been cut in 2024 so far, with tech layoffs showing no signs of abating" (Hughes, 2024). Is this phenomenon due to owners' particular positions on moderation and diversity, a more general trend towards AI replacement, or initiatives to tackle rent-seeking coalitions of employees inside firms now that surveillance technology allows for better assessments of productivity? The takeaway is that establishing and weighting value creation, while challenging at the firm level (see the SVC metrics in Section 6.6.5), is even more complex at the intra-organizational level and inside the micro units of society.

The value creation (first-order 'producer') and value extraction (second-order 'taker') dualism is universal, reflected at the macro-level of a national economy, in the meso-level elite system, in the micro-level single organization, and existing in even smaller constituent units of society like the family, the social club, or a group of friends.[169] Further to Proposition 8 on bargaining power differentials (Section 2.2.2,

169 The ontological position that informs this work seems reductionist and Manichean, dividing socio-economic relations into first-order 'producer' and second-order 'taker' behaviors. In continuity, the 'universal value extraction propensity of humans' is the premise for social and economic ties and is applicable to human elites and non-elites alike (see Figure A5.4c). It transcends the human order considering that it is also a universal feature of the relationships between all living things and thus of life itself (see the 'universal extraction propensity of life' law of nature, Figure 8.6). This general principle of life is, for instance, evident in phagocytosis, an early evolutionary process by which certain cells, the phagocytes, enjoy value appropriated but *not* created through the ingestion of other living cells. From a different analytical vantage point, Schrödinger's *What is Life?* reflects on "negative entropy", stating that: "the device by which an organism maintains itself stationary at a fairly high level of orderliness (= fairly low level of entropy) really consists in continually sucking orderliness from its environment" (1944/2013, p. 73). The universal propensity for such extractive "sucking" is, for the purposes of this work, not tempered by purported research claims that life does not "always feed on negative entropy" as in microbial realms where "entropy-neutral, entropy-driven, and entropy-retarded growth exist" (von Stockar & Liu, 1999, p. 1412). There certainly are conceptions of life based on symbiotic mutualism, such as the microbiome in the human gut or the processes in natural ecosystems. In fact, "symbionts play a pivotal role in shaping biodiversity at ecological and evolutionary scales" (Chomicki, Beinart, Prada, Ritchie, & Weber, 2022). Moreover, the co-evolution of animals and plants with

see Figure 2.3), the inquiry has centered on principal-stakeholder relationships in an inter-organizational setting by reducing the analytical scope to division of value strategies. If we examine the intra-organizational perspective more granularly there is no escaping the logic of power that owners, managers, or workers have over their colleagues as a result of "existing relations and associated resources (e.g., status, prestige, legitimacy)" emanating, for instance, from being "uniquely positioned to broker intra-organizational knowledge flows by virtue of maintaining unparalleled social ties within the firm and by possessing tacit knowledge concerning organizational routines" (Di Gregorio, 2013, pp. 43, 44). Within companies, value is also divided, as some executives and workers appropriate more value than they create for the organization ('takers'), while others create more than they appropriate ('producers').

The particular proportion of 'producers' and 'takers' that an organization employs is a critical factor in its performance. 'Takers' increase costs in so many ways that they should in theory not exist at all in a firm that maximizes profit, but perhaps by being adept at office politics (and intrigue), they often thrive. Despite being a hindrance to organizational objectives, 'takers' persevere because they either gain formal authority or develop connections to leaders that rise to the top based on coordination leadership and an ability to amass power. As for company leaders, although some of these are also clearly 'takers', it is a cliché that those at the top benefit from the producers at the bottom. All the greater grounds for top executives, along with mid-level managers and workers, to be subject to assessments through the lens of sustainable value creation, maybe by an 'Individual Value Creation Rating' ('ind-VCr').

The HR departments of most organizations are premised on carrying out explicit assessments of employees and managers. However, the higher up the ladder one goes, the greater the ambiguity becomes on how value creation is attributed (see Zajac & Westphal, 1995, on CEO compensation) or misattributed (Sánchez-Marín, Baixauli-Soler, & Lucas-Pérez, 2010). While research suggests that when "a shirking CEO causes underperformance and harms shareholder wealth" he or she is "more likely to be replaced, especially when the CEO is early in their tenure" and if "board independence" is high (Biggerstaff, Cicero, & Puckett, 2016), Jensen and Murphy hypothesize in their

microbes points to "strong, persistent symbiotic associations" now set to shape the understanding of "all subdisciplines of biology' (McFall-Ngai, 2024), with *de facto* exchanges based on relatively equalized bargaining power a defining property of nature. Nonetheless, the 'value appropriation demand of humans' basic constraint of the human condition is deemed to be foundational to this work and 'value appropriated but *not* created' is recognized as being inescapable in the 'all elite agency creates and transfer value' (realist) inference where its pragmatic philosophy plays out. Interestingly, it is tempered in public life and provided with inclusive expression in societies everywhere by religion, ethics, customs, and narrative restraints. Chapter 8 suggests ethical principles for curbing these extractive tendencies in order to maximize development. Are these ethical principles pertinent only in the context of *intra-human* relationships? Section 8.1.6 on the ethical boundaries in a political economy examines their application to relationships across species and life forms, such as in factory farming or the rapidly evolving interactions between humans and post-biological superintelligence.

seminal paper "that public and private political forces impose constraints that reduce the pay-performance sensitivity", while shareholders and their representatives on the board lack the "complete information regarding the CEO's activities and the firm's investment opportunities" (1990, pp. 225, 226). At the upper echelons of a firm, the default narrative is that individual performance equates to organizational performance adjusted for risk. Effective checks and balances and effective governance notwithstanding, those with internal bargaining power differentials that sit atop the hierarchy and benefit from "status" (Piazza & Castellucci, 2014) need not self-assess and can easily attribute the collective value creation and residual income of what they manage, fairly or not, to themselves (and even diverting the responsibility for losses to others). Theoretically, extractive internal value transfers (from one sub-set of firm members to another) are associated with the agency of dominant coalitions and their power inside the firm (March & Simon, 1958; Thompson & McEwen, 1958; Cyert & March, 1963). Their influence might be ascertained through measures derived from social network analysis methods that leverage key organizational datasets (see the embeddedness of Granovetter, 1985; Sparrowe, Liden, Wayne, & Kraimer, 2001; Siegel, 2009; and Section 4.1.2). But to reiterate, power can create value and not be used for extraction. Overall, the value creation position and performance of a firm is conjectured as being severely impacted by the internal relative (bargaining) power weights of its 'producers' and 'takers'.

At the same time, it must be pointed out an organization led or populated by 'takers' throughout its higher ranks might well be profitable. The relationship of such organizations with their external stakeholders is the chief determinant of their financial performance (see the discussions on the VCA framework in Chapter 2). Residual income levels are high because of extractive transfer-IN from external stakeholders (see the 'rentier' firm quadrant, Figure 7.2) as is the case for the inefficient but profitable monopolist, or a bloated civil service supported by taxpayers. Evidently, in the intra-organizational context, the negative weight and impact of 'takers' on performance is theorized to matter less in business models that are based on value extraction, since these can afford in-house inefficiencies and excess burdens due to value appropriated but *not* created from stakeholders outside of the firm.

In sum, from a management and sustainability perspective, the distribution of 'producers' and 'takers' within an organization is critical. In many instances, tacit knowledge already exists about who the 'producers' and 'takers' are and of their relative contributions to the collective success or failure of an organization. Scholars have established the deadweight that incompetent executives and workers represent, especially in competitive markets, and the literature has identified many of the roots of intra-firm value extraction: wage growth over productivity or its opposite (see Economic Policy Institute, 2024; and mandated wages above equilibrium in Table 2.2 and Figure 2.4); executive bonuses not associated with performance (Jensen & Murphy, 1990); worker rents through membership in unions, and managerial rents through investments in firm-specific human capital (Sørensen, 2000). The organizational life-

cycle might also be a factor (much like the lifecycle postulated for elite business models, Figure 4.5) and, over time, extractive rent-seeking activity by internal associates accumulates. Unsurprisingly, research also confirms significant destruction of extractive rents thanks to corporate restructuring, though interestingly this is less true for managers than for workers because, according to Dencker and Fang (2016), relatively more open and market-based contracts are already imposed on the latter.

7.2.4 Implications of sustainable value creation for leadership

That elite agency is realized through leadership was established in Section 4.1.1. In the context of this theory, leadership is about amassing and wielding power and having a functional "influence on organizational activity", which Stogdill (1950, p. 1) conceived of as a process or act informed by objectives and the will to achieve these. Simply put, leadership is about obtaining and wielding 'the extraordinary lever' of power. Two forms of micro-level leadership in the context of elite agency, each associated with the performance of their own discrete objectives, have so far been advanced in this work: (a) 'elite coordination leadership', where the objective is power accumulation (see Figure 1.2); and (b) 'elite business model leadership', where the objective is residual income maximization (see Figure 2.1). To complete a fundamental understanding of elite leadership, a third form, the meso-level (c) 'elite system leadership' is now advanced and will eventually become theoretically embedded in the framework of institutionalized intra-elite contest rules and the elite separation of powers. The objective of this type of leadership is to increase elite cohesion (see the 'elite cohesion underpins social order' conjecture) and the bargaining power and residual income (i.e., value appropriation) of elites as a socio-economic category (see Figure 8.1). This work considers these three types of leadership to be 'fundamental' leadership varieties found in any elite system and its coalitions (independently of whether the system boasts high or low elite quality, as per its EQx or EQr scores). They are supplemented by two other vital types of leadership, jointly referred to in this work as 'transformational' leadership varieties on account of their normative and disruptive nature and their main objective: enhancing sustainable value creation.

The two varieties of transformational leadership are: (d) 'elite transformational leadership', and (e) 'elite system transformational leadership'. Transformations occur through the practice of self-restraint, such as a "voluntary power handover" (Boucekkine, Piacquadio, & Prieur, 2019), on taking a long-term perspective (Olson, 1993), on "enlightened self-interest" at the top (Mizruchi, 2017), and on self-critically recognizing the "wealth pump" (Turchin, 2023) and its benefits and then weighting, offsetting, and even suspending its flows. These two leadership varieties weight and offset transfers to move organizations and the elite system towards greater sustainable value creation and thereby contribute to higher degrees of national elite quality and, ultimately, to economic development. For organizations, and for nation states, such leadership ad-

dresses and resolves an optimization problem since the value (and risk) creation and transfers of different activities can be set against each other (as is implicit in the 'quantifiability of value transfers' assumption, see Section 5.3.1 and Figure A5.4a). The presence or absence of 'elite system transformational leadership' is hypothesized to be the most important determinant of national non-elite welfare and the driver of historical processes and cycles. An overview of the five varieties of leadership that concern the ETED is provided in Table 7.2.

Table 7.2: A Typology of The Five Varieties of Elite Leadership.

Elite leadership variety [analysis level]		Objective [elite agency]	Definition
(i)	**Fundamental leadership varieties**		
(a)	Elite coordination leadership [micro-level]	Bargaining power [elite coalitions]	Elite coalition leadership at the business model level that leverages accumulated coordination capacity and uses it for maximum bargaining power differentials over stakeholders (see Figures 1.2, 3.6, 4.1, A5.3a).
(b)	Elite business model leadership [micro-level]	Residual income [elite coalitions]	Elite coalition leadership at the business model level that converts bargaining power differentials over stakeholders into maximum residual income (see Figures 2.1, 4.1, A5.3a).
(c)	Elite system leadership [meso-level]	Elite cohesion; bargaining power; residual income [core elite coalition]	Leadership at the elite system level, usually by the core elite coalition, to increase elite cohesion for the maximization of elite bargaining power and residual income.
(ii)	**Transformational leadership varieties**		
(d)	Elite transformational leadership [micro-level]	Sustainable value creation; residual income [elite coalitions]	Elite coalition leadership at the business model level that converts bargaining power differentials over stakeholders into maximum residual income that is, nonetheless, self-constrained by the minimization of value (and risk) transfers and the maximization of value (and risk) creation. This transformational leadership variety has an ethical anchor, necessitates a long-run temporal perspective, requires purposeful and continuous business

Table 7.2 (continued)

Elite leadership variety [analysis level]	Objective [elite agency]	Definition
		model transformation (e.g., in consistency with social and technological changes), accrues legitimacy on account of signaling, and technically requires the weighting and offsetting of value creation (including transfer-OUT) against value transfer (transfer-IN) activities (see Figures 5.2, 8.3, A5.12).
(e) Elite system transformational leadership [meso-level]	Elite quality; sustainable value creation; a sustainable elite system; economic development; elite/non-elite cohesion; bargaining power in the international system [core elite coalition]	Leadership at the elite system level by the core elite coalition that utilizes elite cohesion and the elite separation of powers (see Figure 5.2) to raise elite quality by constraining extractive value (and risk) transfers and engaging in structural reform to incentivize sustainable value creation. Such leadership is driven by a set of ethical principles, relies on individual elite judgment, accrues legitimacy on account of signaling, and technically requires the weighting and offsetting of value creation (including the sum of transfer-OUT) against value transfers (the sum of transfer-IN) in the political economy as it seeks a sustainable elite system via economic and human development that furthers elite/non-elite cohesion and bargaining power advantages in the international system (see Figures 5.2, 8.3, A5.12).

The implications that this typology of the varieties of elite leadership have for economic development are more numerous than can be covered in this work, and the theoretical path from the leadership literature to the political economy needs to advance further, as is suggested by the work of Jones and Olken (2005) or Brady and Spence (2010). The assertion of this inquiry is that the two transformational varieties of leadership link to sustainability because they require elite judgments to constrain value and risk transfers in the pursuit of residual income to move the needle in a less extractive direction.

It is important to stress that this work's conceptual element of elite transformational leadership should not be conflated with 'transformational leadership' as presented in the extant literature, even though both aim at positive change. The latter, like the "4 I's of transformational leadership" comprised of "idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration" (Avolio, Waldman, & Yammarino, 1991, as cited in Bass & Avolio, 1993, p. 112), focus on followers, their "values and ideals" (Piccolo & Colquitt, 2006, p. 327), and is often contrasted with, although also seen as complementary to, transactional leadership, with its rewards and punishments resting on "exchanges or agreements" between leaders and the led (Bass & Avolio, 1993, p. 112). Elite transformational leadership, on the other hand, is specific to elite agency and its business models. Hence, it has discrete properties, including an association with decision-making that entails risk, such as a CEO who is responsible to shareholders and whose commitment to new value creation does not immediately make up for the lost residual profits derived from the cessation of extractive transfer-IN activities.

Relatedly, it must be emphasized that the higher the degree of transformational leadership, the greater the courage and exposure that is required. The effects of organizational "empowerment", or the processes "by which leaders become change agents" and "heroic leaders" (Walls, Salaiz, & Chiu 2021, pp. 502, 504) lose significance—transformational leadership cannot simply be manufactured. Elites are made of power and the ethical positions they take on sustainable value creation are self-driven, unconstrained, and intrinsic, linked to their internal Will to Live and Will to Power (Figure 8.7) manifestations. As such, the root of their transformational agency transcends current incentive structures. Non-elites, including the second stratum's managerial, technical, and creative class, while often driven by intrinsic motivation, do respond to incentives. Elite principals concerned about low quality stakeholder agency that wish to incentivize non-elite sustainable value creation can refer to the virtuous feedback loops that transpire when non-elites see transformational leadership at the top. For instance, research on authentic leadership shows that there is impact "on followers' ethical and pro-social behaviors" and a positive relationship with moral courage (Hannah, Avolio, & Walumbwa, 2011, p. 555).

Leadership can be theoretically at odds with the conceptualization of transformation in complex adaptive systems (see Section 3.2.3). In contrast, "to person-centered accounts", Aldrich's evolutionary approach "using an aggregate as opposed to an individual level of analysis" and the population ecology model accentuates "the nature and distribution of resources in organizations' environments, rather than on internal leadership or participation in decision making" and so, for instance, "selection derives from the consequences of action, not the intentions of actors" which "can seem maddeningly indirect and impersonal" (Aldrich, 2008, pp. xxi, xxviii). The elite theory obviously minimizes "forces exogenous" and "environmental forces treated as unchangeable by managers and organizations (Aldrich, 2008, as cited in Aldrich & Yang, 2014, p. 77) and is closer to "organization theories using an evolutionary approach

[that] today treat environments as subject to manipulation and transformation" (Aldrich & Ruef, 2006, as cited in Aldrich & Yang, 2014, p. 77). The emphasis is on elite agency to explain change in complex evolutionary systems for all of Aldrich's stages of variation, selection, retention, and struggle. Leadership during variation and selection rests on individual creativity and the Will to Power; retention demands the courage to oppose the forces of reaction; and struggle relates to personal survival and the Will to Live.

In practice, the crux of the matter for top management, boards, or investors is whether a successfully transformed 'sustainable' firm can really perform better financially than a 'rentier' firm (see The Sustainable Value Matrix, Figure 7.2, and the discussion on the implications for investors in Section 7.2.5). This critical topic has produced a diverse and vibrant academic literature that lacks consensus and is not immune to the controversies that surround sustainability in society (e.g., Hart & Ahuja, 1996; Friede, Busch, & Bassen, 2015; Billio, Costola, Hristova, Latino, & Pelizzon, 2020; Berg, Kölbel, & Rigobon, 2022; *The Economist* (2022). Regardless of any actual and potential trade-offs between profitability and CSR/ESG, in many elite quarters there is a push for sustainability to control the related "financial risk", as articulated by Tangen (FT Film, 2024, 1:55). Transitioning to higher sustainable value creation business models is also consistent with a variety of existing ideas (such as stakeholder capitalism, see Fink, 2020; Moynihan & Schwab, 2020) and regulations (see the discussion in Section 7.2.5). However, transformational leadership will still be exposed to the elements and require heavy ethical anchors bolstered by courage and boldness (see Chapter 8). A putative link might then exist with leadership theories relevant to the organization, such as the burgeoning research field of servant leadership, characterized by its concern for ethics, virtues, and morality (Graham 1991; Lanctot & Irving 2010; Parolini, Patterson, & Winston, 2009; Russell, 2001; Whetstone, 2002, as cited in Parris & Peachey, 2013, pp. 377, 378).

The transformational varieties of elite leadership in this work ultimately link to ethical positions on economic development. Yet single elite coalitions that are intent on prevailing cannot be expected to not be extractive if intra-elite contest dynamics and business model rules are overly sympathetic to transfer-IN business models. For the most part, elites in pursuit of the residual income maximization aspect of the utility function (see Section 2.1.1) will apply high discount rates to future income flows and not self-constrain on account of ethical, moral, or religious beliefs; on the contrary, righteous narratives will be used as a cloak to appropriate value. There are striking historical illustrations to support this point. For instance, Martin Luther's support for enslaving fellow Germans in the context of the *Bauernkrieg* (1524–1526), or the brutality of the Castilian conquest under the aegis of evangelization that totally vanquished Native American paternal Y-chromosome lineages (in striking contrast, Native American DNA still contributes to 33% of maternal lineages in Cuba, Mendizabal et al., 2008). Behavior more sensitive to economic and human development in 16th century Germany or New Spain would have run up against then permissible value appropriation. On the other hand, there is often virtue and long-term wealth to be

gained when elites transform their business models and limit residual income (profits) under their own volition (see the 'inextinguishable value creation option of elites' assumption in Section 2.2.1 and Figure 8.7). Such inspiring examples of elite transformational leadership abound. For instance, "many big and successful corporations started out as social businesses, with, for example, Henri Nestlé providing baby-food to help mothers who were unable to breastfeed and William Lever, a founding father of Unilever, helping to make cleanliness, hygiene, and health common place in Victorian England" (Dylick & Muff, 2015, pp. 15–16). Wikipedia, with its enormous and well-known externalities (transfer-OUT) and modest value appropriation (from donations) can certainly be placed in the 'naïve' firm category (Figure 7.2) and will see its value promptly transferred to LLMs, despite the fact that Jimmy Wales and Larry Sanger were moved by high ideals consistent with the ethics of sustainable value creation. Then there is the case of Sir Alexander Fleming who:

> is revered not just because of his discovery of penicillin – the antibiotic that has saved millions of lives – but also due to his efforts to ensure that it was freely available to as much of the world's population as possible. Fleming could have become a hugely wealthy man if he had decided to control and license the substance, but he understood that penicillin's potential to overcome diseases such as syphilis, gangrene and tuberculosis meant it had to be released into the world to serve the greater good. (Ablott, 2011)

However, it is understandable that most elite coalitions will, and for reasons related to the very survival of their elite identity, behave as game-theoretical models require. They do not self-constrain, as their advantage would then move to a rival elite coalition that does not reject the institutionally sanctioned value appropriated but *not* created that is afforded by power. Again, ethical considerations are both deeply personal and need to originate at the elite system level before becoming institutionalized and operative through the incentive structure of the political economy.

Core elite coalitions (see their theoretical and applied role in Section 8.1.2 and their socio-economic position in Figure 8.1) are exceptionally placed to rise above narrow utility maximization logic and, as the most powerful coalition (and likely the most stationary of Olsonian bandits, see Section 2.2.1), pursue long-run objectives at the elite system level that reject value and risk transfers and advance structural efficiency to further a nation's economic and human development and its strength on the international stage. Here, the *coincidentia oppositorum* between elite cohesion and the separation of powers (see Figure 5.2) is a precondition for intra-elite contest outcomes that move institutions towards more inclusive business model rules. According to Evans, "comparative evidence suggests that the efficacy of the developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized links to private elites" (1989, p. 561). One may take the "dense" and "institutionalized links" across political and business elites to describe mastery of the 'intra-elite quality contest' dilemma (Figure 5.2). Even if it is often discordant, a "symbiosis" exists between business and political elites (Best, 2019), with

the corporatist model of Fascism (see Pinto, 2017) exemplifying its most intensified form. Decades ago, research showed "that considerable integration exists among elites in all major sectors of American society" (Moore, 1979, p. 689) but Mizruchi argues in *The Fracturing of the American Corporate Elite* (2013) that such conditions no longer exist—corporate elites and CEOs are unable to act collectively as they compete, and have absconded from their positions of responsibility with nefarious consequences for society. Without cohesion, elite system transformational leadership is not feasible. That is, sustainable business models will see their value appropriated by elites, as no constraints are placed on value appropriated but *not* created (transfer-IN). The successful course of elite system transformational leadership pursued by Lee Kwan Yew, the founding father of Singapore, is not the haphazard sustainability journey of Larry Fink, the CEO of the world's largest money manager, BlackRock; these contrasting paths are partially attributable to the discrete degrees of elite cohesion in the two countries. Piecemeal institutional change, as is suggested by A Weighted Structural Reform Framework for policy (see Table 7.1), as well as any inclusive winner in an intra-elite contest, positively contribute to development. The core elite coalition's systematic participation in intra-elite contests, even when these are unrelated to their own members' business model interests, is of far-reaching consequence. On the other hand, cohesion makes elite system transformational leadership easier to materialize as an emerging property; contests are won by high quality elites and new rules of the game for generating residual income are established. Moreover, regular elite business models faced with a novel incentive structure become more likely to join the flow and seek to transform toward higher sustainable value creation positions.

The transformational leadership of political elites (generals, emperors, popes, presidents, or secretary-generals) and knowledge elites (leading religious figures, writers, philosophers, scientists, or artists) is widely admired. Business elites, in contrast, elicit little such praise when their names are recalled: the transformational leadership and value creation contributions of Lü Buwei, Mayer Amschel Rothschild, Thomas Lipton, Minomura Rizaemon, Friedrich Krupp, King Camp Gillette, Eric Schmidt, and Jensen Huang, to name but a few, are seldom given their due or are tainted by other considerations (e.g., their personalities,[170] their philanthropy, their errors). Within their coalition or at the elite system level, transformational leaders might hail from any of the three power domains of the economy, politics, or society. Their agency might leverage the power of 'money', 'might', or 'mind' to achieve institutional change in the business model rules that underpin their value creation and

170 Leaders that effect transformational leadership are bound to psychologically deviate from conventional norms of human behavior and accepted standards of elite conduct. As they creatively destroy resistance, they face and generate enormous amounts of uncertainty. Their very business models also tax their mental coping mechanisms because painful extraction from third parties is required, even when these transfers are more than offset by larger amounts of value creation (see the 'all elite agency creates and transfer value' realist inference, Figure 8.7).

appropriation, entailing desirable transfer-OUT spillovers and public goods like security, innovation, and human development. It is through the lens of sustainable value creation—at both the elite business model and elite system levels—that history ought to assess the accomplishments of the powerful and influential.[171]

To sum up, elite business models are the ultimate target of elite system transformational leadership, which consequently becomes a momentous force that opens up the whole gamut of *homo sapiens*' choices for what Wengrow and Graeber term "social creativity" (2015, p. 613), thus affecting the fundamental configurations of the political economy. The two anthropologists "propose an alternative to the characterization of Palaeolithic societies in binary terms ('complex' versus 'simple', 'hierarchical' versus 'egalitarian') [a model where] Pleistocene hunter-gatherers alternated – consciously and deliberately – between contrasting modes of social organization" (2015, p. 599). In the context of this inquiry, non-elite agency cannot compete with 'the extraordinary lever' which, when consciously and deliberately held by elites and imbued with the spirit of transformational leadership, engenders sustainable and egalitarian societies.

171 'The great elite coalition for development' conjecture was advanced in Section 1.3.3 by referencing Carlyle's (1840/2008) Great Man Theory of history and leadership. Moreover, "heroic leaders" that "transform their companies into business beyond usual" can perhaps be developed (Walls, Salaiz, & Chiu, 2021, p. 494). Yet by what standard should posterity judge the individual? The theoretical focus of this theory of economic development is the elite business model, and hence any historical or contemporary figure of note (whether a business, political, or knowledge elite) can thus be appraised. Judgments passed on the likes of Hippocrates of Kos, Elizabeth I of England, Thomas Paine, Karl Marx, Milton Friedman, Deng Xiaoping, Chuck Feeney, Narendra Modi, Oprah Winfrey, or Dario and Daniela Amodei would revolve around their roles *as* inspirators, originators, or leaders of business model coalitions associated with discrete sustainable value creation positions. The suggested 'Individual Value Creation Rating' (ind-VCr) assessments refer to the nature of leadership and the impact of individuals on society, organizations, and teams and hence will invariably be conflicted. Think of a fugitive commodity trader's extractive practices, but whose agency also created enormous value in driving the "rising prosperity of the resource-rich developing world, the growth of commodity markets and the capacity of producers to profit from them" (Breiding, 2013). The academic question, referencing *The Financial Times* headline: "Yes, He Played Dirty—but Marc Rich also Changed the World", is to what proportion? This SVC measurement would include quantifiable metrics on the individual's relationships with his/her direct and indirect stakeholders across all related business models (which could well evolve into primary data inputs for their characters in the 'weighted transfers game', Figures A5.10 and A5.14b). In some cases, the family (e.g., the Marmeladovs), would be treated as a business model and its members rated as 'producers' (e.g., Sonya) or 'takers' (e.g., Semyon); in other cases, the business model of the individual would extend to stakeholders in the wider community or at the national level and be computable for any individual (whether Rich, Messi, or Modi). The notion of sustainable value creation at the individual level to complement country and firm level measurements was inspired by the entrepreneur and philanthropist, Joachim Schoss, during various exchanges with the author in Spring of 2023. Data availability notwithstanding, he has encouraged its realization as a ranking and believes that its laudatory and shaming effects would nudge elite agency in constructive directions.

7.2.5 Implications of sustainable value creation for investors

With Larry Fink's celebrated *2020 Letter to CEOs*, sustainability became a more consequential part of the narratives and products of the finance industry even if much of that enthusiasm has now subsided.[172] Robert Eccles (2024), the founding chairman of the SASB, notes that in the US "shareholder proposals, both pro- and anti-ESG, have reached the front lines of the culture wars", and while it remains unclear "what it means to be a responsible business" he welcomes "that the acronym ESG will eventually fade entirely". Traction within the space is being lost in part due to the confusion caused by the sprawl of sustainability frameworks, metrics and assessment systems, and standard setting organizations. In addition to the problematic CSR/ESG issues identified by academia (and discussed in Section 7.2.2), this multiplicity translates at the practical level into overwhelming possibilities that result in "an unholy mess", flanked by "missionary creep" and "false marketing" (*The Economist*, 2022) in line with a lack of conceptual consistency and suspicious datasets. Hence, "these days, some like to joke that if you want a better ESG rating all you need to do is change your rating provider" (Murray, 2021). Third-party providers are known to recycle metrics from each other that at times are impromptu and lack a solid academic foundation. In response, investors and consumers of sustainability assessments have developed their own proprietary evaluation systems (e.g., State Street Global Advisors has the 'Responsibility Factor' scoring system to guide investors and support the ESG practices of firms; TPG developed 'The Impact Multiple of Money' for its impact investing The Rise Fund).

The bedrock of any sustainability assessment is the underlying conceptual framework and derived data processing standards. Here, academia is contributing to conceptual clarity (e.g., Walls, Phan, & Berrone, 2011) and developing models (e.g., Elkington, 1997, and his "Triple Bottom Line" for "people, planet, and profit"), while the 'big' global ESG voluntary framework and standard-setting organizations have done important and impactful work. These include the GRI, the CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the International Integrated Reporting Council (IIRC), the UN's Global Investors for Sustainable Development alliance (GISD), and SASB. The latter's standards currently "identify the sustainability-related issues most relevant to investor decision-making in 77 industries" (IFRS Foundation, n.d.). While the concept of "integrated reporting" has been advanced to include financial information (for shareholders) and nonfinancial information (for stakeholders) to engage "significant audiences" (Eccles & Spiesshofer, 2015, p. 3), a particular focus of institu-

172 From 2023, Fink started to backpedal on ESG in response to novel dynamics in the narrative market, claiming that "attacks are now personal. They're trying to demonize the issues", while Elon Musk, surely a beneficiary of the 'E' element in ESG narratives "tweeted earlier that the S in ESG stands for 'Satanic'". See: https://www.swissinfo.ch/eng/bloomberg/larry-fink-says-esg-narrative-has-become-ugly–personal/48210604

tional change is now double materiality. In this vein, "a growing number of so-called benefit corporations (with B Corporation certification) are aiming for profit and impact" (Schoenmaker & Schramade, 2024, p. 6).

Most critically, the overarching framework of the European Commission's Corporate Sustainability Reporting Directive (CSRD) 2022/2464, that incorporates the European Sustainability Reporting Standards (ESRS), expands the scope of the earlier Non-Financial Reporting Directive (NFRD) 2014/95/EU and emphasizes the concept of double materiality for sustainability reports in the EU.[173] To advance the institutionalization of this notion "the responsibility for further developing the concept of double materiality and providing guidelines for its practical application is transferred to the EFRAG, as an organization that will set standards in the field of European Sustainability Reporting Standards in the future", meaning that ultimately "companies must respond to the increased demand for sustainability information from their stakeholders" (Baumüller, & Sopp, 2022, pp. 20, 23). The GRI notes that: "The materiality assessment process enhances investment decision making" (Adams, Alhamood, He, Tian, Wang, & Wang, 2021, p. 5). Through the legal lens, Mezzanotte (2023, p. 633) "recommends (1) that a sound legal strategy guide the company stakeholders interaction regarding external impacts, (2) that enforcement strategies be designed to accommodate unintentional greenwashing, and (3) that assurance practices for sustainability reporting be expeditiously implemented".

This is all of consequence to the field of accounting far beyond European borders. Disclosure requirements are now being further advanced globally through the International Sustainability Standards Board (ISSB) that develops and approves the International Financial Reporting Standards (IFRS) via the IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures),[174] even though these rely on single (financial) materiality. The ISSB's IFRS initiative is supported by the International Organization of Securities Commissions (IOSCO), an umbrella association comprised of the world's securities and futures market regulators. Standards are based on frameworks such as the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD), which advances climate-related financial reporting. The World Economic Forum's 2020 White Paper (Moynihan & Schwab, 2020), written in collaboration with Deloitte, EY, KPMG, and PwC, reviews frameworks to advocate "common metrics" and "consistent reporting of sustainable value creation". A key milestone in the institutionalization of sustainable finance was reached in 2019 when the EU adopted the Sustainable Finance Disclosure Regulation (SFDR) 2019/2088, that (now working in tandem with the CSRD):

173 Mezzanotte (2023, p. 634) specifies that the CSRD "Entered into force on 5 January 2023. Members States will have 18 months to transpose this legislation into their national legal regimes".

174 See: https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/; and https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

> lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. It does so in relation to the integration of sustainability risks by financial market participants (i.e. asset managers, institutional investors, insurance companies, pension funds, etc., all entities offering financial products where they manage clients' money) and financial advisers in all investment processes and for financial products that pursue the objective of sustainable investment. (European Commission, 2019)

The ETED's SVC measurements may have a role to play in development economics or strategic decision-making, but can a business model centered conceptualization of sustainability become a reference for capital allocation? This question was positively answered in this work in Section 5.3.2—contrasting with the position of Edmans (2023) while referencing the findings of Bancel, Glavas, and Karolyi (2023)—with Figure 5.3 detailing the relationship between SVC measurements and SVC valuation frameworks. These technical frameworks (aimed at enterprise and equity, debt, and firm valuations) rely on SVC metrics and conceptually describe how business models generate profits, with each resting on a theoretical foundation that references the VCA framework and principal-stakeholder relationships, bargaining power differentials, and the notion of value creation and its extractive transfers, and hence link to economic development theory. Very importantly in terms of agency, all value (and risk) creation and extractive transfer activities correspond with prices on the back of the 'quantifiability of value transfers' (finance) assumption and its 'transparency of value creation and transfer activities' (open) implication for financial analysis (see Section 5.3.1 and Figure A5.4b). The ultimate practical consequence is to 'weight and offset value transfers' against value creation activities, the holistic implication of this theory[175] where business model activities can be traded against each other (see Figure A5.4b), meaning that sustainable value creation is a tractable optimization problem.[176]

175 Pazienza, de Jong, and Schoenmaker (2023, p. 19) complain that existing methodologies to assess sustainability "fail to provide a holistic measure which can be applied across firms and sectors consistently".

176 Without SVC measurements, the trade-offs between value transfer activities can hardly be conceived, optimization can hardly be approximated, and offsets can hardly be implemented. This is the case because the decisions concerning two or more interrelated activities with sustainable value creation trade-offs are often separate and independent. Some offset possibilities approach the dire or can seem impossible to formulate such as: how many human lives is a panda bear worth? Still, questions not that dissimilar are common as is evident in the case of pandemics or in the trade-off between violent hostilities and environmental protection, where the business model of war is in many instances beneficial to the nature stakeholder. For example, in the case of Colombia, Clerici et al. find that "the presence of armed conflict may ultimately prevent [logging, habitat conversion and illegal activities] to a greater extent than the absence of conflict", and that in the cases of Rwanda, Liberia, and Peru, "post-conflict development results in higher threats to forested ecosystems than conflict itself" (2020, p. 1). In short, the weighting and offsetting implications of SVC measurements reach their applied limits in extreme real-world situations when human lives are valued in acres of rainforest, or when freedom of movement is curtailed as part of public health policies during certain stages of a

Further to the previous discussions on sustainable governance (Section 7.2.2) and SVC valuations, investors will want to know to what extent a firm is optimizing sustainable value creation over profitability (or sacrificing one for the other) when funding a business. To this end, 'The Sustainable Finance Matrix' for investments (Figure 7.3), which mirrors the format of 'The Sustainable Value Matrix' for management (Figure 7.2), is now introduced. The focus here is on discrete investment categories with the decision layer applying to each of the four quadrants.

In The Sustainable Finance Matrix, firms are assigned an investment category based on two variables: sustainable value creation (VCr) on the x-axis, and firm performance (profits) on the y-axis. The first quadrant of the matrix defines the 'sustainable' investment category (quadrant 1) as being applicable to firms that are characterized by high profits and a high VCr (or an alternative SVC measurement). Financing this category is an obvious choice for investors, all else being equal in terms of valuation and risk. But are such firms too good to be true? *The Economist* (2022) declares that: "It's a myth that ESG investments inevitably outperform. You can't have it all."

Research findings are split. While it has been found that ESG "has no impact on financial performances [sic]" (e.g., Billio, Costola, Hristova, Latino, & Pelizzon, 2020, p. 1), another plane of analysis "surprisingly shows that ESG controversies are associated with greater firm value", while yet another reveals that these "have no direct effect on firm value" (Aouadi & Marsat, 2018, p. 1027). On the other hand, Hart and Ahuja argued almost thirty years ago "that efforts to prevent pollution and reduce emissions drop to the 'bottom line' within one to two years of initiation" (1996, p. 30). In this vein, meta-studies have shown that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a non-negative ESG-CFP (corporate financial performance) relationship (Friede, Busch, & Bassen, 2015, p. 210). A wide-ranging investigation of "22,527 firm-year observations from 62 countries" established "that the value-enhancing effect of CSR is prevalent in the non-competitive industries" (Gupta & Krishnamurti, 2021, p. 1). At the same time, identified "associations between corporate governance and environmental performance" can be "in directions not predicted by extant theories" (Walls, Berrone, & Phan, 2012, p. 900) or even "find that CSR has a neutral impact on financial performance" (McWilliams & Siegel, 2000, p. 603). The nature of the hypothetical trade-off between performance and sustainability will remain elusive as long as there is theoretical incompleteness, the profusion of frameworks noted earlier prevails, and, as Billio, Costola, Hristova, Latino, & Pelizzon stress: "ratings differ considerably across the providers" (2020, p. 11). In the face of "the rater effect", some scholars suggest that "regulators could address the issue of ESG rating divergence" by forcing disclosures about the ESG definitions used, increasing the transparency of measurement methodologies, and trying to understand

pandemic (see also the discussion on the weighting and relativization of evil in value transfers and destruction in Section 8.2.1).

"the rater effect to avoid potential biases" (Berg, Kölbel, & Rigobon, 2022, p. 29). In sum, and despite the normative ideal of inclusive businesses transferring value to society while still making profits (e.g., Dylick & Muff, 2015, p. 16), the financial performance of sustainable investments, while obviously vital to investors, can be expected to remain an unresolved and open issue in academia. This aligns with the understanding that causal outcomes for entities in complex systems such as the economy and the financial markets are notoriously hard to determine given their inherent uncertainty, emergent properties, and non-linear dynamics (see Section 3.2.3). Investor agency, however, has a clear role to play to [a] make sustainable but unprofitable firms profitable, and to [b] make profitable but unsustainable firms sustainable, as is implied by the arrows representing the transformational paths in Figure 7.3.

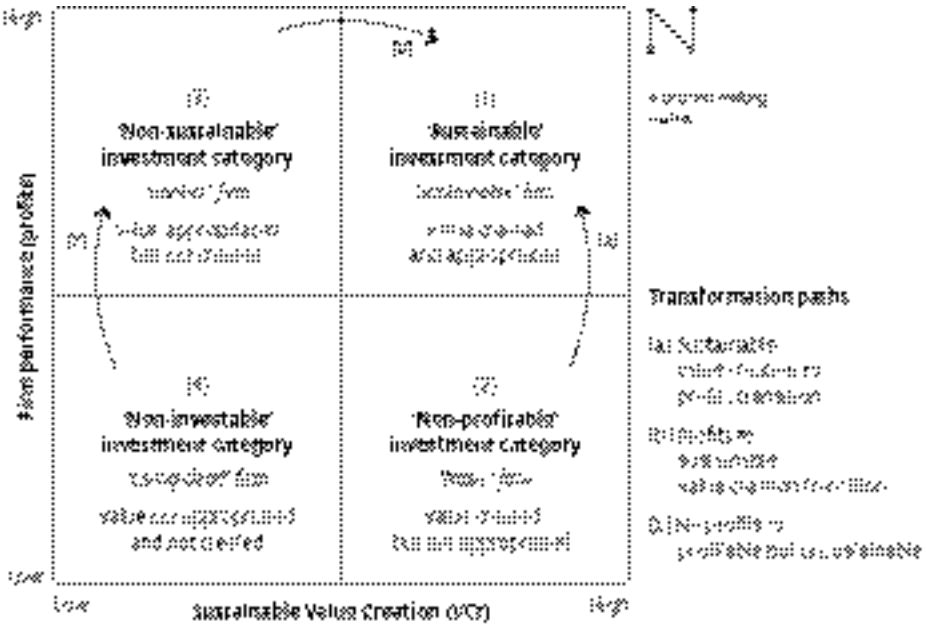

Figure 7.3: The Sustainable Finance Matrix: A framework for investments.

Firms that are not profitable but create large amounts of value have long been the targets of activist investors, as in the transformational path marked by arrow [a]. Less edifying would be the transitioning of extractive firms from the unprofitable to the 'non-sustainable' but profitable, as in arrow [x]. Many loss-making firms belong in the 'non-profitable' investment category (quadrant 2) yet are sustainable. As such, suppliers of capital could support management in developing strategies and operations so that their business models leave less money on the table and instead develop the capability to appropriate a greater slice of the value they create. Activist shareholders, hedge funds, private equity funds, or private debt funds often use shareholder resolu-

tions, proxy fights, litigation, divestment threats, or short selling to lead firms through their value appropriation transformational journeys to reduce the amount of value created but *not* appropriated. Past exponents of such investment approaches include Nelson Peltz's Trian Fund Management in transforming the fast-food chain, Wendy's, and Bill Ackman's Pershing Square Capital Management and its transformation of Canadian Pacific Railway. While such deal-making has so far focused on the monetization of general value creation and rarely revolved around sustainability and CSR/ESG concerns, corporate M&As are a tested route for investor-led transformations, specifically targeting firms rating high on conventional sustainability but showing little profit. Examples include Tesla's acquisition of energy services provider SolarCity Corporation, and Unilever Plc's acquisition of the eco-friendly home care products company, Seventh Generation Inc.

Investors can also influence another inclusive type of transformation, depicted by arrow [b]. Already profitable firms in the 'non-sustainable' investment category (quadrant 3) are prompted to become increasingly sustainable without renouncing value appropriation. These were the hopes when in 2021, "Engine No. 1, a San Francisco-based activist hedge fund stunned the corporate world by landing three of its eco-conscious nominees on Exxon's board", although two years later *The New York Times* reassessed the event and concluded that there was scant evidence of transformation (Sorkin et al., 2023). This approach is incipient, yet many, including *The Economist* (2023b), still see opportunities for ESG shareholder activism. Lastly, 'living-dead' business models that have low residual income streams and low sustainable value creation scores are termed 'non-investable' (quadrant 4), a self-explanatory category in The Sustainable Finance Matrix.

No investors in the 'non-profitable' investment category (quadrant 2) will refrain from seeking or expecting transformation. However, this is not the case for investors in the 'non-sustainable' investment category (quadrant 3), where many are attracted precisely by the firm's rents and impervious to questions about whether these are associated with extractive value transfers, at least while the existing institutional arrangements remain in place. For instance, while a market concentration SVC metric (see VCr_fd.HHI in Table 6.1) is deemed an extractive transfer-IN, Grullon, Larkin, and Michaely determine "that over the last two decades the Herfindahl–Hirschman index (HHI) has systematically increased in more than 75% of US industries, and the average increase in concentration levels has reached 90%", while "the higher profit margins associated with an increase in concentration are reflected in higher returns to shareholders" (2019, pp. 697, 698). On the other hand, investors backing unsustainable strategies for the sake of higher returns might find out that they also forfeit the profits. Boeing's sobering counter transformational path is akin to the [b] arrow in reverse—moving from being a 'sustainable' firm (quadrant 1) to a 'rentier' firm (quadrant 3)—carried out through an aggressive division of value strategies vs its stakeholders including workers and engineers, suppliers, and taxpayers. Exemplified by moving its headquarters first from Seattle to Chicago (2001), and then to Arlington, near the US capital (2022), it is

proving to be unsustainable in terms of product quality, market share, profits, stock price, and even end-user perceptions of aircraft that few now look forward to flying in.

Evidently, the returns from 'rentier' business models (quadrant 3) are tempting and though they may eventually be phased out by the dynamics of the political economy, they have a negative impact on economic and human development. Rather problematically, the time horizon for effecting institutional change and transitioning away from non-sustainable models might be extremely lengthy. For example, slavery in North America lasted a quarter of a millennium from 1619 to the 1862 *Emancipation Proclamation*. Opioids in the US produced substantial returns for principals for over two decades and even after recent lawsuits and restrictions, many members of the elite coalition and their investors have managed to retain most of these gains (see the discussion in Section 8.2.1). Despite being associated with nefarious costs and destructive for society at large, there will always be investment opportunities in rent-seeking and value transfer activities that are lawful. The normative role of elite transformational leadership and elite system transformational leadership is to develop and support the value creators in intra-elite contests. Investors and their capital allocation decisions have an essential role to play in nudging such transitions forward.

As has been repeatedly emphasized since Section 5.3.2, a precise goal of the proposed SVC measurements and applied frameworks is that they function as tools to adjust the equity and debt valuations of firms. For a perspective on the investment strategy impact of SVC valuations in the analysis of asset allocation in portfolio management, refer to 'The Sustainable Valuations Matrix' for investors (see Figure A5.7). It has the same two dimensions—sustainable value creation (VCr) on the x-axis and firm performance (profits) on the y-axis—and the quadrant logic of The Sustainable Finance Matrix (Figure 7.3).[177] The impact matrix for investors associates the investment category quadrants with equity and debt valuations and aims to augment the sustainable investor toolset. The hypothetical impact of investment strategies on equity and debt valuations, pending empirical validation, is now speculatively deduced.

In The Sustainable Valuations Matrix (Figure A5.7), the 'sustainable' investment category (quadrant 1) sees both equity and debt valuations trend *upward*. For the 'non-investable' category (quadrant 4), the *downward* opposite will be the case. For the 'non-profitable' and 'non-sustainable' investment categories (quadrants 2 and 3) the equity valuations will move in dissimilar directions as per a rationale akin to that stipulated in the 'SVC risk premium function' for equity (fr_{SVC}), referred to in equations 6/9 in Table 5.3. That is, equity valuations will trend *upward* for 'non-profitable' category (quadrant 2) firms with high sustainable value creation on the grounds of increased value appropriation (including via transformational journeys along arrow

177 Adding the VCp as a variable to the matrix would make it three-dimensional (and accordingly, result in eight quadrant spaces). This enhanced version of The Sustainable Valuations Matrix would establish the discrete relative impact of value transfer-IN on firm valuations backed by the logic and categories of The Value Transfer Strategy Matrix (Figure 7.4).

[a] in Figure 7.3); and *downward* for 'non-sustainable' (quadrant 3) investment category firms on the grounds that the market will price results from untenable profit levels in the long run (there is the possibility to increase a valuation if a firm's VCr evolves along arrow [b] in Figure 7.3). On the other hand, the valuation of debt for firms in both categories (quadrants 2 and 3) is taken to be in a stable *range-bound* trend as per a rationale akin to that stipulated in the 'SVC risk premium for credit rating function' ($fr^{cr}_{SVC,D}$) and the 'SVC risk premium for debt function' ($fr_{SVC,D}$), referred to in equations 7/9 and 8/9 in Table 5.3. For a 'non-profitable' investment category firm, this rests on the notion that current high sustainable value creation would be monetized should an insolvency event be near; for a 'non-sustainable' category firm, it rests on the notion that current high profits, while comparatively insecure and eroding, safeguard solvency in the foreseeable future barring negative institutional change or major market events.

7.2.6 Implications of sustainable value creation strategies for principals and key stakeholders

In the context of sustainable value creation, strategy is about achieving a balance between inclusive value creation (net value creation, i.e., 'value created and appropriated' as revenue/profits and transfer-OUT, i.e., 'value created but *not* appropriated') and extractive value transfers (transfer-IN, i.e., 'value appropriated but *not* created', including transfer-COST, i.e., 'cost created but *not* borne'). By taking into account the practical primacy of value transfers that is articulated in the 'revenue is value creation unless value transfer is proven' implication (see Figure A5.4a) and the two basic firm-level SVC measurements—the VCp and the VCr—a matrix is proposed to provide what is analytically one of the conceptually most exigent 2x2 sustainability frameworks in this work: 'The Value Transfer Strategy Matrix' framework for principal-stakeholder relationships, visualized in Figure 7.4. This allows the principal and key stakeholders—management, capital suppliers, and the government—to formulate strategies with a 360-degree overview of a business model's sustainable value creation relationships.

The VCp and VCr scores provide the two dimensions of the matrix and describe a firms relationships with stakeholders based on the value transfer-IN/OUT sums of its component SVC metrics. Value transfer-IN and -OUT are, even when related or part of an intertemporal sequence, epistemologically two independent realities that constitute the two axes of the Value Transfer Strategy Matrix. On the VCr x-axis, the conceptual emphasis is on transfer-OUT relative to transfer-IN, with inclusive agency reflected in a high score. Strategy is here placed on a range from 'keeper' (the firm keeps a part of the value appropriated as transfer-IN since it is not compensated for by transfer-OUT) to 'giver' (the firm creates and transfers more value to stakeholders than it extracts from them). On the VCp y-axis, the conceptual emphasis is on transfer-IN, with extractive agency reflected in a low score. Strategy is therefore here

placed on a range from 'inclusive' (no extraction) to 'extractive' (extraction occurs). The ensuing typology of principal vs stakeholders strategy is based on inclusive/extractive transfer levels and value-keeping/value-giving to become an applied sustainability framework for boards, top management teams, or investors. It is actionable when principals drill down to consider the dozens of SVC metrics in their stakeholder relationships that nudge the firm in one direction or another within the confines of the matrix. Moreover, given the large residual incomes of elite business models, the framework is potentially a highly revealing tool for policymakers. Next, the four quadrants of the Value Transfer Strategy Matrix are described and examples of the types of firms that fit their conceptual descriptions are provided.

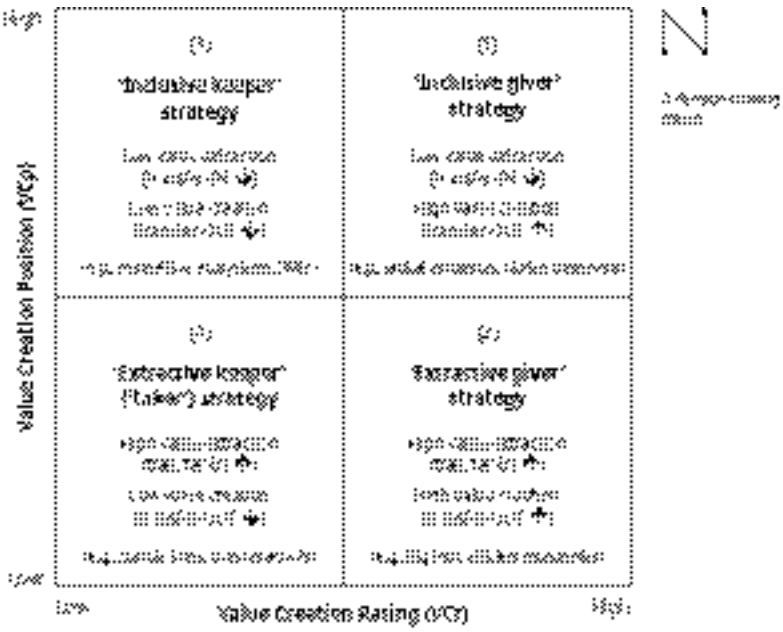

Figure 7.4: The Value Transfer Strategy Matrix: A sustainability framework for principal-stakeholder relationships.

The strategies of the 'inclusive giver' (quadrant 1) do not extract (low transfer-IN) from stakeholders (hence 'inclusive') while generating value spillovers (high transfer-OUT) for stakeholders (hence 'giver'). Firms with such strategies include leading innovators and hidden champions, often very profitable and with no need to extract. Some firms and individual members of elite coalitions in this category are so powerful that they could easily affect institutional change and increase their profits with transfer-IN, but might have a worldview infused by the ethics of transformational leadership or the restraint of Olsonian stationary bandits. They are the drivers of economic and human development and include the Wikipedia Foundation, or radical in-

novators like Apple or Alibaba prior to any monetization of their monopoly power. Using power in such a manner spells a departure from this category, a path represented in The Elite Business Model Lifecycle of Figure A5.9a when power accumulation levels overtake value creation (compare this to Figure A5.9c where the 'elite power vs value creation gap' is almost non-existent). Once firms become too powerful and in the absence of robust intra-elite contests, transformational elite system leadership, and elite cohesion, the temptation for them to extract is incessant, and so their sojourn as 'inclusive givers' is likely to halt as they leverage their power into residual income and 'extractive giver' strategies.

'Extractive giver' strategies (quadrant 2) result in successful rent seeking and extraction (high transfer-IN) from stakeholders (hence 'extractive'), but such firms are also highly efficient, innovative, and otherwise generate positive externalities (high transfer-OUT) for stakeholders (hence 'giver'). These firms ought to be encouraged with policy incentives, while at the same time the power that they derive from 'political economy know-how' in the politics and society power domains should be carefully curtailed (to limit value appropriated but *not* created) by diligent policy weighting and offsetting, but not eliminated (since an optimal power differential is necessary for value creation and general development). Firms in this category include leading players in the Big Tech, Big Finance, Big Pharma, and Big Oil sectors, as well as efficient public monopolies and prospering state-owned enterprises. Organizations whose strategies place them in the 'extractive giver' quadrant ought to be nudged by the core elite coalition and non-elites to engage in transformational leadership of their own accord, as they have sufficient resources to do so. Is that what occurred with Alibaba but is not happening with Amazon? At any rate, the crafting of constructive and duly weighted non-elite narratives that acknowledge power differentials and extraction optima in the elite/non-elite strategic collaboration context (see Figure 8.2) is essential.

'Inclusive keeper' strategies (quadrant 3) do not extract excessively (low transfer-IN) from stakeholders (hence they are 'inclusive'), but do not generate value or many positive externalities (comparatively low transfer-OUT) either, so their VCr scores will be modest at best. This category includes SMEs or firms in highly competitive industries without bargaining power differentials in their favor. These firms are not a burden on development and do not harm other participants in the economy. On the contrary, their self-centered and narrow agency can create very efficient ecosystems where transfer-OUT happens at the system aggregate level. Even if they are not significant individual contributors to economic growth, they provide stability and jobs to society and should by no means be penalized. Becoming profitable and scaling can associate here with a transition from 'keeper' to 'giver'[178] if not preyed upon by pow-

178 The enhanced three-dimensional matrix (see preceding footnote), would add profits as the third parameter in The Value Transfer Strategy Matrix and thereby provide new analytical spaces for strategy (in eight quadrants) for both principals and stakeholders.

erful elites and their institutions (see the discussion on responses to extraction such as 'informality' in Section 5.2.3). Hence, 'inclusive keeper' firms, likely with low power endowments (evidenced by low transfer-IN), need support (and protection) from the state or other elite coalitions. This should include incentives for them to upgrade their value creation and appropriation capabilities.

'Extractive keeper' (quadrant 4) strategies—or, more concisely, 'taker' strategies—are detrimental to development since the chief firm asset is the power to extract (high transfer-IN) from stakeholders, while offering no quid pro quo, as might be evidenced by few positive externalities or spillovers (low transfer-OUT). Firms in this quadrant with business models based on 'political economic know-how' are poisonous, or even "parasitic" if one uses "a naturalistic conception of exploitation over a moralized one" (Shelby, 2002, p. 383), to the economy and society. Notwithstanding the resistance fueled by the attractive profits of many 'rentier' firms (explored in Section 7.2.5), policymakers should deactivate such agency via intra-elite contests by weakening the power endowments of rentiers and phasing out the legal frameworks that enable *contra natura* the 'extractive keeper' strategies of 'takers' in the first place.

7.3 International implications: Cross-border value creation and appropriation

Whether through the *dirigiste* policies of Colbert (1661–1683/1863) and 17th and 18th century European mercantilism, or the highly regulated economy of China's militarist-physiocratic empire exemplified by the first emperor, Qin Shi Huang, and the early Han Empire (von Glahn, 2022), the state has had a long tradition as *the* core elite coalition in resolving intra-elite contests. However, the state also exists in relation to other states, as "the idea that there is a sovereign authority within the single community involves the corollary that this authority is one among other authorities which are ruling other communities in the same sovereign way" (Hinsley, 1967, p. 242). Thus, if the state revolves around its national business models domestically, international relations are precisely shaped by cross-border elite business model preferences and value appropriation. In this section, the international implications of the ETED, centered on the conceptual element of cross-border elite business models, are discussed in relation to their potential relevance for the theoretical understanding of international relations (7.3.1). The analysis transitions into practical applications by studying the interaction between cross-border elite business models and international relations through the VCA framework (7.3.2). The all-important implications of elite system leadership are subsequently considered (7.3.3), with many previously discussed conceptual elements applied to the case of Europe's underdeveloped or even non-existent elite system (7.3.4) and the global tragedy of the commons brought about by AI (7.3.5). Finally, the implications for scholars in the field of international business are discussed (7.3.6).

7.3.1 Implications of cross-border elite business models for understanding international relations

> An international system is established for the same reason that any social or political system is created; actors enter social relations and create social structures in order to advance particular sets of political, economic, or other types of interests. (Gilpin, 1981, p. 9)

This section posits that the core rationale of international relations—both in theory and in practice—lies in cross-border elite business models, while the construct that bridges the field to economics and management is power. Morgenthau (1948) advanced the comprehensive contemporary international relations (IR) theory as a "science of international politics", whose basic premise is the unsentimental pursuit of power. According to realist IR theories, states will ensure their security by accumulating as much relative power as possible: "Only a misguided state would pass up an opportunity to be the hegemon in the system because it thought it already had sufficient power to survive" (Mearsheimer, 2001, p. 35). The criticism has long been levied that despite its claims to be "a more scientific approach to the study of international relations" (Korab-Karpowicz, 2018), realism and "the 'scientific' approach to the study of international relations appears to work no better, in forecasting the future, than do the old-fashioned methods it set out long ago to replace" (Gaddis, 1992, p. 56). No matter, even if realism is just another constructed narrative to understand history (as set out in Reisch, 1991), it informs the foreign policy of political and other elites whose objective is the power of the state and so: "Great powers do not compete with each other as if international politics were merely an economic marketplace. Political competition among states is a much more dangerous business than mere economic intercourse; the former can lead to war" (Mearsheimer, 2001, pp. 32–33).

The ever-present possibility of violence, wars, and even invasions, as the tragedies in Ukraine or Yemen illustrate, makes security emanating from state power a public good that matters to all coalitions in the elite system. Undoubtedly, the national security objectives of power-maximizing realist IR theory form the narrative foundation for the defense elite coalition (what Eisenhower termed the "military-industrial complex" in his 1961 Farewell Address).[179] However, beyond ensuring one's physical existence, to many other elite coalitions in the elite system, national power is also an asset for the purpose of forging ahead with their cross-border business preferences. So, can this elite (cross-border) business model-centric understanding accommodate hypotheses such as the "sleepwalk" into war, as in the analysis of how World War I broke out (Clark, 2012)? National power and military readiness take inordinate

179 The President's statement is an admonition for checks and balances against an elite coalition's power and its extractive potential: "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist." See the speech transcript: https://millercenter.org/the-presidency/presidential-speeches/january-17-1961-farewell-address

amounts of effort and agency to accumulate. Like bargaining power in the domestic context, this is functional as it shapes the international rules of the game, i.e., the international *de jure* and *de facto* institutions that enable elite business models to obtain residual income, in this case, across borders. A state might find itself at war due to a miscalculation, but it will not sleepwalk into one.

How do the alternative theories to realist IR, especially those that are closer to being full narrative explanations, relate to the ETED? At the outset, liberal IR theory sits opposite to realism's fixation with power: "The Kantian triad of democracy, trade, and international institutions analytically linked to outcomes of peace and prosperity has been and remains the foundation of IR theory" (Sterling-Folker, 2015, p. 43). Yet Keohane and Nye's (2012) liberal framework of "complex interdependence", with its nuanced and contingent understanding of hierarchies, explicitly acknowledges that power is fundamental. Generally speaking then, what role does liberalism, with its emphasis on cooperation and international institutions, suggest for residual income generating international elite business models? What about constructivist perspectives that are even further removed from realism? The conventional variant of constructivist IR theory has its focus on "communities of intersubjectivity in world politics, domains within which actors share understandings of themselves and each other, yielding predictable and replicable patterns of action within a specific context" (Hopf, 1998, p. 199). To this inquiry, which at the micro-level theoretically relies on bargaining power to foster value appropriation (see Chapter 2), the liberal and constructivist approaches are chiefly alternative mechanisms to attain and consolidate state power. That is, to bolster 'might' in the global political non-market arena and ascendance over 'mind' in the global narrative market arena. Eventually and unceremoniously, all approaches to power translate into institutional change relevant to cross-border elite business models (as in Figures 3.4 or 4.4). Simply put, this elite theory coalesces the relative primacy of power in realist IR—transformational leadership notwithstanding—with a supporting role for the institutional and cooperation focus of liberal IR theory and some consideration for the narrative basis of constructivist IR theory. Accordingly, the guiding forces in international relations are domestic elite preferences for (international) institutional change that is advantageous to elite business models seeking international business opportunities. Most coalitions in a national elite system will assess their state's power through the sober optic of whether changes in international institutions further their cross-border residual income flows.

The embedding of elite agency in IR theory, with a preferential weight given to realist IR, might still be consistent with the synthesis between realism and liberalism in Moravcsik's theory (1992) and Putnam's two-level game theory (1988) that places a spotlight on domestic interest groups. The latter author quotes Robert Strauss' now classic observation on the GATT Tokyo Round trade negotiations:

> During my tenure as Special Trade Representative, I spent as much time negotiating with domestic constituents (both industry and labor) and members of the U.S. Congress as I did negotiating with our foreign trading partners. (Twiggs, 1987, p. vii, as cited in Putnam, 1988, p. 433)

While there is more to interstate relations than trade and residual income generated from cross-border business models (such as security), the obvious domestic filters to reach the international negotiation table mean that internal elite business models are always prominently represented. Under the premises of this inquiry, cross-border elite business models operate under the value creation-appropriation (VCA) logic and the value transfer-IN imperative, which by its existential logic (see Proposition 6 on elite identity, Section 2.1.2, and the behavioral 'universal value extraction propensity of humans', Figure A5.4c) applies not only within but also across political economies. An international and *de facto* fourth separation of powers tier—Tier 4 'across-system'—of intra-elite checks and balances (that moderates to varying degrees—as in Figure A5.11b—the three basic tiers detailed in Figure 3.7) can justifiably be extended to include foreign elite coalitions. Raw power and institutional arrangements like regional free trade agreements, international investment agreements,[180] the World Trade Organization's (WTO) Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement; WTO 1994a), or the WTO's Agreement on Subsidies and Countervailing Measures (WTO 1994b), whether attained through realist or liberal principles, become germane to the elite coalitions of a nation state in two ways. First, they are important internationally, in support of the cross-border ambitions of their business models[181] (or, conversely, to the detriment of elites that find themselves at the extractive receiving end of aggressive foreign elite coalitions). Second (and relatedly), as foreign elites become members of coalitions in the local elite system, they enrich intra-elite contests and become an additional factor in the checks and balances of the political economy. This point must be understood from the perspective that the security of the residual income flows and interests of elites in a foreign system is supported by the international relations power of their home state. Elite business models seek to realize value created and appropriated, and value appropriated but *not* created, both within and across borders, and so strive for gainful international institutional change (such as trade rules, security regimes, and tax rules for digital services). As with the domestic political economy, the parsimonious position is that the bargaining power of elite agency leverages the state for international institutional change.

To reiterate the points already made, nations jockey for relative power advantages in the international system, an activity that is driven by national elite coalitions that employ internationalization as a strategy to expand residual income streams. So, what does state power accumulated in the international relations arena exactly mean for a nation's elites? First and foremost, it enables value appropriation across borders.

180 See the United Nations Conference on Trade and Development (UNCTAD) Investment Policy Hub's International Investment Agreements Navigator: https://investmentpolicy.unctad.org/international-investment-agreements

181 The "trade-based approach to intellectual property protection" narrative was enterprisingly advanced in the US by Edmund Pratt, the CEO of Pfizer (Braithwaite & Drahos, 2000, p. 62).

This understanding informs 'The Global Influence of the Elite System Framework' for international relations (Figure 7.5) that takes domestic elite quality (as captured by the EQx or the EQr) as its x-axis, while the y-axis represents the aggregate value creation (vs extractive transfers) of a given country's domestic elites in relation to their foreign cross-border stakeholders as they engage in international business. This therefore suggests the concept of 'cross-border elite agency', operationalized at the aggregate level with an international measurement: the 'Cross-border Elite Quality Rating' ('cb-EQr'). The cb-EQr assesses 'country A vs the world', while a second measurement, the 'Bilateral Elite Quality Rating' ('bl-EQr') is a narrower assessment for 'country A vs country B'[182] (see the overview of all SVC measurements in Figure 7.8 and Table A3.1). The cb-EQr is hypothesized to impact economic and human development and, as an aggregate of all a nations' cross-border (elite) business models, is material to policymakers. The same is true of its firm-level counterpart, the International Business Value Creation Rating (IB-VCr), an SVC measurement that hones in on stakeholder relationships outside a given principal's home jurisdiction (with overseas subsidiaries, joint ventures, suppliers, customers, and governments).

To illustrate the above points, the PRC's 1978 Open-Door policy saw Western firms with high IB-VCr scores such as Volkswagen, Schindler, and Apple make contributions to China's development, including transfer-OUT like "technological and international market access spill-over benefits for Chinese firms" (Buckley, Clegg, & Wang, 2002, p. 637). Moving forward, Musk's contention "that the Chinese car companies are the most competitive car companies in the world" (Walz, 2024) implies that without the massive 2019 Gigafactory investment in Shanghai, Tesla would be less competitive internationally. In another example—and further to all its other ills—colonialism is a retardant to development when foreign elites run low IB-VCr extractive transfer busi-

182 The 'cb-EQr' expresses the relative amounts of value (and risk) creation and extractive value (and risk) transfer of cross-border business models on aggregate for a given country. That is, the sustainable value creation relationship of a particular state in relation to the rest of the world. Conceptually, it a 'bottom-up' (micro-to-meso level) SVC measurement, determined from the international business value creation (IB-VCr) of the most significant elite cross-border elite business models of a national state (e.g., its 10 or 100 largest MNEs or exporters). Note that a country's cb-EQr can be broken down into the cross-border elite quality of each of its bilateral relationships. That is, a rating for 'bilateral elite quality', actualized as the 'bl-EQr' to describe the sustainable value creation relationship of country A based on the cross-border value creation/extraction of the elite coalitions that conduct international business in country B. Given the two-way nature of bilateral relationships, two bl-EQr scores would be needed to reveal the full picture (from which would emerge distance and value creation balances akin to the bilateral measurements of trade and investment flows). The cb-EQr and bl-EQr ultimately result from business models and hence emanate from the SVC metrics that a nation's elites maintain with their domestic and foreign stakeholders. The cb-EQr measurements would be a useful input for a 'global weighted transfers general equilibrium' macroeconomic model (G-WTGE). However, its proper conceptualization and operationalization is an intricate endeavor at the intersection of international business and the international political economy, and so despite being amply referenced throughout this chapter, it is set aside for further research.

ness models (see the examples of Rome and Britain, but not Roman Britain, in Sections 7.3.2 and 7.3.3).[183] Also, "in Korea, gambling by Korean citizens is considered unlawful, and citizens who breach the law face severe penalties [. . .] The government adopted this move to boost the gambling economy and tourism in South Korea while protecting the citizens from its ill effects", as any form of gambling is a low sustainable value creation (VCr) business model (a transfer away from the foolish or the poor, a regressive tax[184]). The East Asian nation's "roughly 18 actual casinos that are designed only for foreign tourists" (Anyaa, 2023) represent a poor IB-VCr model.

Conceptually, The Global Influence of the Elite System Framework for international relations of Figure 7.5 describes the nature of international relations by examining state power (its global 'money', 'might', and 'mind') in terms of cross-border value appropriation—both of value created and value *not* created. International institutional change is pursued and leveraged to permit both the value creation and extractive value transfers of domestic cross-border business models. Every nation has a meso-level degree of aggregate elite quality (operationalized by the EQx or EQr), as was discussed in Chapter 6. Now it is suggested that every state also has an aggregate degree of cross-border elite quality (operationalized by the cb-EQr, or, bilaterally, by the bl-EQr) as its elites go global and conduct international business. The combination of these SVC measurements, both variables anchored in the sustainable value creation agency of business models, is posited to be a main determinant that characterizes the behavior of a state and its relationships with other states in the international system.
The quadrants of The Global Influence of the Elite System Framework for international relations that characterize IR are quite self-explanatory. The prototypical 'global public goods' elite system (quadrant 4), with high domestic and cross-border elite quality, is exemplified by post-World War II America and its domestic prosperity, open trade system, and security guarantees, where US elite coalitions largely advanced inclusive business models abroad (especially in Western Europe, Japan, and South Korea) based on capital investments and knowledge transfers. The notion of a 'global subsidizer' elite system (quadrant 2), with low domestic elite quality but comparatively high cross-border elite quality, might be counterintuitive, and given the premises of utility maximization ought not to exist. Yet it links to concepts like "overstretch" (Kennedy, 1987) and is explained by the existence of a domestic elite coalition

183 Refer to Fleming's *The Material Fall of Roman Britain, 300-525 CE* (2021) and to Gilley's highly divisive analysis that expounds on the "objective cost/benefit approach [that] identifies a certain need of human flourishing—development, security, governance, rights, etc.—and asks whether colonialism improved or worsened the objective provision of that need. One main challenge of this research is to properly enumerate the things that matter and then to assign them weights" (2018, p. 169).
184 This intuition, at the root of gambling prohibitions to safeguard the public such as those instituted in Korea or at state and federal levels in the US prior to 1950 (Blakey, 1984), is reflected in popular culture, as in the celebrated lyrics of the song in Henry Fielding's *The Lottery: A Farce* (1732): "A Lottery is a Taxation, Upon all the Fools in Creation", see also: https://coulditbeyou.co.uk/history-general/lotteries-a-tax-on-the-stupid/

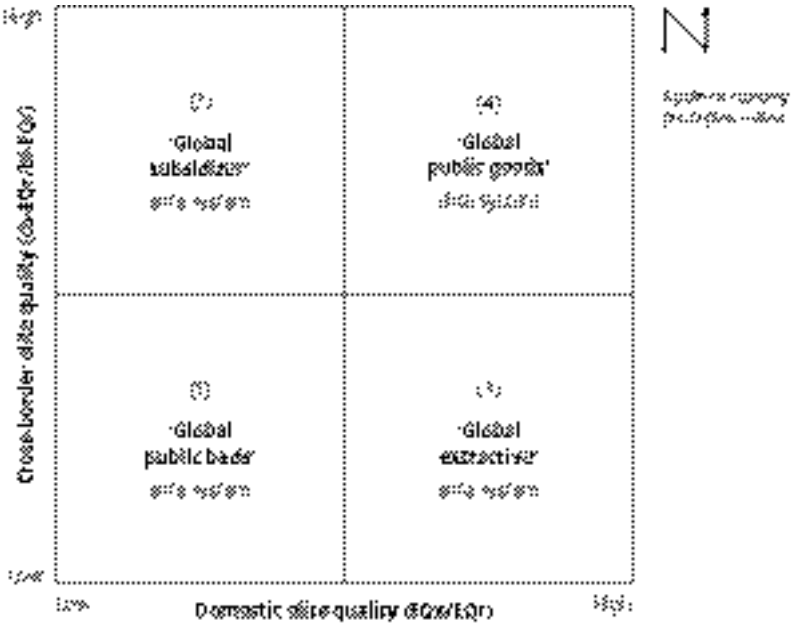

Figure 7.5: The Global Influence of the Elite System Framework for international relations.

benefiting from its 'generosity' to overseas stakeholders at the expense of stakeholders in its home country. The category might apply to the post-WWII Soviet Union if, in parts of its empire (e.g., certain Central Asian republics) and spheres of influence (e.g., Cuba), its extractive low quality domestic elite system ran business models that transferred, certainly on ideological or security grounds, value to the periphery (including knowledge and investments in infrastructure and social development such as women's rights) while refraining from the full value appropriation that its power differential advantages could have afforded. Most problematic are the 'global public bads' elite systems (quadrant 1) that have both low EQx and cb-EQr scores for models that are extractive both domestically and internationally. If the elites of the Soviet,[185] Spanish, or British empires were extractive of their peripheral subjects (in Ukraine, Latin America, or India) as well as of their domestic non-elites, they would fit this description. All three empires might, on the other hand, have had 'global extractive' elite systems (quadrant 3) with high EQx and low cb-EQr scores on the assumption that their elites did not run extractive business models domestically. The Cross-border Value

185 The Soviet Union illustrates the added insight that an international SVC measurement on bilateral relationships could provide. The bl-EQr, detailed in footnote 182, might show extremely extractive relationships with Poland and the German Democratic Republic (i.e., very low bl-EQr), but significant value creation relationships (i.e., higher bl-EQr) with Vietnam and Cuba, where the costs of providing security services and development aid had no proportional quid pro quo at the time.

Transfers Matrix analytical framework is now put to use to shed light on the Spanish empire's elite system business model and its contribution to development.

The first Europeans that saw Tenochtitlan described the capital of the Aztec Empire and today's Mexico City "as the greatest city they had ever laid eyes on. Built in the midst of the waters of a series of connected lakes, the city far exceeded Spain's largest cities in size and was a cosmopolitan hub" (Caplan, 2013, p. 334). What cross-border elite business models did the Castilian Crown implement upon its conquest? The starting point was the mining model based on "structured labor systems, including mass corvees, slavery, and incipient wage labor. It fueled settlement and urbanization. [. . .] Mining in sum, was a key agent in the early modern transformation of the societies we now know as Latin America" (Studnicki-Gizbert & Schecter, 2010, p. 110). Even though purported instances of value creation (e.g., urbanization) are cited, silver was an extractive transfer-IN model, not just from labor stakeholders, but also from the nature stakeholder (see Section 2.2.2). So much wood consumption for fuel was required that even the Viceroy, Antonio de Mendoza, in Olsonian stationary bandit fashion advocated for environmental protection:

> [He] was forced to issue what were possibly the first colonial ordinances limiting forest clearing in the Americas – these were for the mines of Taxco in 1542. Some years later the viceroy explained why: "In just a few years a large area of forest was destroyed," he wrote, "and it was feared that the woods would be finished sooner than the ore." (de Mendoza, 1965, p. 288, as cited in Studnicki-Gizbert & Schecter, 2010, p. 94)

Not all attempts by the Castilians to impose elite business models based on forced transfer-OUT from their colonial subjects succeeded. The non-elite Mexicas positively resisted the business model of fiat money as Fray Juan de Torquemada described:

> in 1544, the Mexicas (or Aztecs) dumped massive numbers of two and four maravedí copper and low-denomination silver coins into Lake Texcoco. By 1552, the official coinage of copper ceased, not to be resumed for two hundred and fifty years. In the absence of small denomination coins, cacao was used as a currency into the nineteenth century. Previous scholars have attributed the Mexicas' actions to spontaneous negative reactions to the coins. However, analysis of notes from the Spanish *cabildo* suggests that the Mexicas were working to remove from circulation coins that threatened to replace indigenous commodity currencies. Cacao's survival as a currency was the result of this successful undertaking. (Caplan, 2013, p. 333)

Overall, while the extractive business model of fiat money lost out to cacao, the essential Conquistador elite business model of mining was secured by power differentials sourced in the non-market arena (the 'might' of arms) and in the narrative market arena (the power of 'mind', activated by European knowledge elites, the Catholic priesthood). In terms of the effects of this business model on development and in order to reach a cb-EQr score, how should one weight the outright extraction and negative externalities (value transfer-IN) against inclusive agency (value transfer-OUT)?

> As the forests of the New Spanish mining belt disappeared, so too did many of the communities that depended upon them. [. . .] Bands of the many peoples of highland and northern Mexico –

> Guachichiles, Tecuanes, Tepehuanes, Pames, Raramuri, and others – were settled on missions, converted, and set to work in the fields and mines. They were pacified, as the Spanish put it, and molded into a new class of subjected and sedentarized Indians. (Studnicki-Gizbert & Schecter, 2010, p. 111)

If one connects the dots and benchmarks value of statistical life accounting (VSL), the figures are stunning: "The population of Latin America was about 40 to 60 million people before 1492, with some estimates as high as 100 million (Denevan, 1992, p. 370). After a century of genocide, slavery, and disease, that figure was reduced to 4 million (Brea, 2003, p. 5)." In what quadrant of The Global Influence of the Elite System Framework for international relations does the Spanish state then belong? Scholars debate whether there was a "Destrucción de las Indias", as famously denounced by Fray Bartolomé de las Casas in *A Short Account of the Destruction of the Indies* (1552/1821), or whether the emphasis ought to be on "the construction of colonial Spanish America?" (Lafaye & Lockhart, 1992, p. 315).

Assuming the examples and evidence provided above are reliable and representative of the *La Conquista* model, the cb-EQr is low. Research focusing on the institutions of the "mercantilist model" (Lange, Mahoney, & vom Hau, 2006, p. 1416) also finds that the "path-dependent legacy of Spanish colonialism" means that centuries later "territories that constituted the centers of the Spanish colonial empire tended to become the region's least developed countries" and those least exposed to the Castilian elites "tended to become the most developed countries (Mahoney, 2003, p. 50). Moreover, if the Spanish elites also managed to extract from large segments of their own population in Iberia, such as from landless peasants in Andalusian *Reconquista latifundia*, or the Soviet Union extracted as much from Russians as it did from subjects in the Baltics or in Eastern Europe, their elite agency would be 'global public bads' (quadrant 1). However, counter arguments in the vein of Gilley (2018) are also made for cross-border value creation through models relying on the introduction of new technologies, urbanization, or, in the case of *El Descubrimiento*, the elimination of human sacrifice practices in Mesoamerica. Spaniards "built or rebuilt all of the cities in New Spain, they created the legislation of the Indies and New Spain, and they established its economy" (Lafaye & Lockhart, 1992, p. 319). If such elite agency and associated institutions resulted in an acceptable cb-EQr and if domestic elite quality was high after all, a totally different assessment would be reached, one that is consistent with the position of some academics and the swathes of Spanish public opinion that espouse the Black Legend hypothesis (a narrative that rejects overly negative interpretations of Spanish colonial history as part of a distorted myth, see Marías, 1985/2014). In this scenario, the Spanish Empire was a 'global public goods' elite system (quadrant 4). Irrespective of which metrics and indicators are used, their conceptual determination, and whatever weighting or assessments are finally made, this inquiry reduces complex international relations—and even civilizational interactions—to elite business models and the sustainable value creation that is embedded in the exchanges. As these aggregate into cross-border elite quality, the history of the world unfolds.

Two additional points are stressed in concluding this sub-section. First, the cross-border business models of 'global extractive' elite systems (quadrant 3) might well include distinctive elite models with a high IB-VCr. Likewise, 'global public goods' elite systems (quadrant 4) will include extractive models based on transfer-IN (with a low IB-VCr). This echoes the contentious 'alternating value extraction and creation' conjecture, and places it in the international context. The weighting and the relativization of cross-border elite business models whose power differentials rest on coercion associate with the "enormous controversy" elicited by the publication of Gilley's "The Case for Colonialism" in *Third World Quarterly*, where "serious threats of violence against the editor led the journal to withdraw the article" (2018, p. 168). Earlier, Grier had claimed "that colonies that were held for longer periods of time than other countries tend to perform better, on average, after independence", also because of higher education levels (1999, p. 317), while Chaudhuri's *The Autobiography of an Unknown Indian* (1951/1989, p. v) was dedicated to "the British Empire in India",[186] echoing Olson's stationary bandit. It is important to recognize the sustainable value creation differences relevant to the economic and human development of great powers; for example, between the 20th century American and Soviet hegemons or the 19th century British Empire and its earlier Iberian rival.

The collapse of the Soviet Union in 1991 and the rush of its satellites to join Western institutions settled the comparison with the US. In the case of Britain, historians like Gilpin (1981) argue that the Empire supported public goods like stability and prosperity with institutional arrangements that facilitated international trade, maritime routes safeguarded by a dominant navy, a global monetary system with the British pound sterling at its core, and, above all, the industrial revolution with its enormous and lasting knowledge spillovers. But how does one weight the costs? By considering excess mortality rates, Sullivan and Hickel calculate that in India "some 50 million people lost their lives under the aegis of British capitalism" (2023, p. 12). In the case of Spain, those who do not consider the Black Legend to be a myth will stress that the Spanish genetically replaced the male lineages of entire populations (Mendizabal et al., 2008) and oversaw extractive models in Latin America with profits flowing back to a Madrid-centered aristocratic elite that invested these not in innovative institutions for economic development but on the construction of monumental places of worship, royal palaces, and endless wars in European theaters. According to the new institutional economics perspectives of Sokoloff and Engerman (2000), Easterly and Levine (2003a), Rodrik, Subramanian, and Trebbi (2004), or Acemoglu and Robinson (2013a), such practices benefited neither party. Again, these assessments remain a matter of contention in both Spain and Latin America, as does the question of which empire—Spanish or British—was the greater or lesser good or evil.

186 The full dedication is: "To the memory of the British Empire in India which conferred subjecthood on us but withheld citizenship; to which yet every one of us threw out the challenge: 'Civis Britannicus sum' because all that was good and living within us was made, shaped, and quickened by the same British rule."

The next sub-section considers the practice of value creation and extraction in the international context that occurs on a business-model-by-business-model basis. This can be captured by SVC metrics aggregated in the IB-VCr, or by self-assessment questionnaires on the international business of a firm (the IB-VCr is a sub-set of the VCr; the IB-self-VCr is a sub-set of the self-VCr, see Section 6.6.2). As discussed, every country has elites that run perfectly sustainable value creation business models with their foreign stakeholders (high IB-VCr), as well as extractive international business concerns that do just the opposite (low IB-VCr). The US, for example, provides institutional cover for its elite business models in Europe that have created copious cross-border value (e.g., its taxpayer-funded security umbrella), and value transfers in the opposite direction (e.g., extractive transfers by technology providers via favorable offshore taxation regimes or monopolistic/oligopolistic positions). Ultimately, the meso-level cb-EQr, or the narrower bilateral bl-EQr are based on the aggregation of the entire set of individual cross-border elite business models (through their IB-VCr scores). An overview of all of the various international SVC measurements is supplied in Figure 7.8 (and Table A3.1a).

7.3.2 Implications of cross-border division of value strategies for international relations

This inquiry's conceptualization of international relations appropriates a synthesis of IR theory, anchored by the relative power (spearheaded by 'might') focal point of realist IR, and integrates liberalism in a supporting role, with its emphasis on cooperation and international institutions understood as devices to accumulate additional power (mostly of 'mind' and 'money') in the global narrative market and ultimately in international market arenas. Some consideration is also given to constructivist IR theory since narratives are understood as devices to further accumulate power (of 'mind'). The critical premise is that the drivers of international relations are domestic elite preferences for international institutional change to support cross-border elite business models. Aggregate (meso-level) domestic elite quality (as in the EQx, EQr, or PEz) *and* cross-border elite quality (as in the cb-EQr and bl-EQr) interact and are manifested in cross-border elite business models with discrete degrees of sustainable value creation that impact the development of both the home and host countries. As shown, the two variables of The Global Influence of the Elite System Framework for international relations (see Figure 7.5) combine to circumscribe the practice of interstate relations and diplomacy. In a two-way causal fashion and consistent with the domestic elite agency microfoundations of institutional change model (Figure 3.2), micro-level cross-border elite business models both shape and are constrained by the rules and realities of international relations, the key mediating variable being state power.

The first specific cross-border business model to be examined must be war. 'History' is essentially the history of international relations and is punctuated by conflicts

that deserve distinct attention given their outsized impact on development. In the context of the ETED, wars are a set of micro-level elite business models with multiple stakeholders. Primarily, wars are powered by residual income expectations (from conquered territory, natural and human resources, or market access). Secondarily, and just as importantly, they are also arbiters of relative power endowments that then enable non-bellicose successor elite business models to engage in cross-border value appropriation, including transfer-IN/OUT. In other words, the history of communities, nations, and empires in the global system could be rewritten as the imposition of, or the resistance to, cross-border transfers. The 'war as cross-border value appropriation' conjecture supposes that it is waged to enable the elites—and to a much lesser degree some non-elites—of one nation the benefit of value appropriated but *not* created from the non-elites and elites of other foreign nations. Suetonius's account of *The Life of Julius Caesar* (1914, 54.2) sheds light on the primary elite business model of war:

> In Gaul he pillaged shrines and temples of the gods filled with offerings, and oftener sacked towns for the sake of plunder than for any fault. In consequence he had more gold than he knew what to do with, and offered it for sale throughout Italy and the provinces at the rate of three thousand sesterces the pound.

A hint of the scale of Caesar's pecuniary extraction from what is modern-day France is the drop in the price of gold in Roman markets (Osgood, 2009, p. 332) to "half its true value" (Frederiksen, 1966, p. 132). The looting of valuables, far from constituting the sole residual income of Caesar's elite business model of war was complemented by an equally lucrative business activity: slavery, the business model fate of his prisoners of war. Plutarch (1919) in *The Parallel Lives* (15.5) accounts for this as follows:

> For although it was not full ten years that he waged war in Gaul, he took by storm more than eight hundred cities, subdued three hundred nations, and fought pitched battles at different times with three million men, of whom he slew one million in hand-to-hand fighting and took as many more prisoners.

In the case of the British Empire, the sophistication of its cross-border appropriation provides textbook examples of the multifaceted implications on development of (low IB-VCr) business model consolidation subsequent to victorious wars. Dalrymple discusses "the first great multinational corporation", the East India Company (EIC), which "probably invented corporate lobbying", and "eventually grew to control almost half the world's trade and become the most powerful corporation in history", as well as providing "history's most ominous warning about the potential for the abuse of corporate power—and the insidious means by which the interests of shareholders can seemingly become those of the state", detailing how it would eventually "run amok" (Dalrymple, 2020, pp. xxxiii, 3, 396, 397). The correspondence of Horace Walpole, a man of letters, on the EIC's extractive practices is revealing:

> We have outdone the Spaniards in Peru! They were at least butchers on a religious principle, however diabolical their zeal. We have murdered, deposed, plundered, usurped — say what think you of the famine in Bengal, in which three millions perished, being caused by a monopoly of the provisions by the servants of the East India Company? (Forrest, 1986, p. 383, as cited in Dalrymple, 2020, p. 223)

American patriots wrote that their country was next in line and "that the EIC, having plundered India, was now 'casting their eyes on America as a new theatre whereon to exercise their talents of rapine, oppression and cruelty'" (Marshall, 2005, pp. 330–332, as cited in Dalrymple, 2020, p. 258). Upon American independence, British eyes became cast on China. Trocki's (1999) classic *Opium, Empire, and the Global Political Economy*, is consistent with Richards' (2002) data analysis of official government opium revenues over a 140-year period which confirm that "without opium the British global empire is virtually unimaginable". Neither are the innovative financial elite business models of the City of London: opium revenues shipped as silver bullion to the metropolis were responsible for the "global dominance of the British pound sterling until World War I" (Hevia, 2003, p. 313). For this cross-border elite business model to achieve its success, it deployed military and geopolitical bargaining power differentials to force institutional change in, for instance, the primary market destination for its products:

> It is perhaps not too surprising, therefore, for Trocki to suggest that the British opium empire might best be understood as a global drug cartel, one that had as its raison d'être the maximization of profits and the protection, at all costs, of the revenue of India. While the British empire may not have been created to trade opium, the trade was central to its survival. When key decisions were made, none were ever directed against the trade or against opium revenue. That was certainly the case when British governments decided to use force in China in 1839 and again in 1856. (Hevia, 2003, p. 314)

Unlike Caesar's ventures, the two British Opium Wars against China did not represent the business model *per se*. The power that the war victories afforded was instrumental to British elites, many of whom were entrepreneurs of Scottish origin such as Jardine, Matheson, or Keswick (whose lineages all perdure to this day), eager to convert British power into institutional change for the specific international business rules that promised massive residual income generation through the drug trade. This highlights the earlier point of how interstate relationships are determined by business models that leverage bargaining power obtained in the global political economy's non-market (political) arena ('might' through war), though also through narratives and business success (power in the form of 'mind' and 'money') to further the international business model preferences of domestic elite coalitions in the national elite systems. The cross-border business model rules facilitated by the winning of wars or narrative contests (power accumulated in the non-market and narrative market arenas) enable the value transfer-IN from the non-elites and elites of the losing foreign states. Yet value extraction is not always part and parcel of the winner's model; post-World

War II America, for example, is classed as a rather generous 'global public goods' elite system (quadrant 4, Figure 7.5).

Social cohesion needs to be affirmed when elites compete against their foreign counterparts in cross-border intra-elite contests (militarily, or in the global market arena through narratives). Elite cohesion is a key advantage, but so is elite/non-elite cohesion. Elites and non-elites often naturally align against a common foreign threat. Unsurprisingly, they also work hand in hand for joint extractive enterprises. Moreover, for domestic elites that value tranquility at home, extraction from foreign non-elites and elites is preferable to extraction from domestic non-elite groups. When non-elites sense the benefits of value appropriation abroad (e.g., through economic prosperity, a stronger currency, cheaper imports, or the spoils of war), there is ample support for their elites.

Whilst in previous epochs armed conflict was a prime determinant of international institutional change, today, cross-border business model rules are generally determined by bargaining power differentials amassed by other means, such as technological advantages (e.g., in semiconductors or software), or FDI. In the international political non-market arena, most cross-border intra-elite contests are institutionalized thanks to multilateral organizations like the Basle Committee on Banking Supervision (BCBS), the World Intellectual Property Organization (WIPO), the International Automobile Federation (FIA), bilateral agreements, and other diplomatic provisions. These seemingly liberal arrangements stand on the shoulders of state power and major nations must not renege on them. At the same time, the war in Ukraine is a poignant reminder that non-institutionalized contests resorting to the blunt use of 'might' still endure as an approach to pursue institutional change and value appropriation.

The analyst of international relations must use the VCA framework and its division of value strategies perspective (see Chapter 2, and Tables 2.1 and 2.2) in the context of cross-border principal-stakeholder relationships to establish international value (and risk) creation and extractive transfers. The examples in Table 7.3 illustrate three relationships and outcomes resulting from cross-border business model VCA strategies embedded in the institutional arrangements relevant to international business.

Table 7.3 shows how domestic elite business models in possession of 'the extraordinary lever' utilize the power of nation states, both directly and indirectly, and effect international institutional change to compete against foreign coalitions. Since the winners (and losers) in the global political economy are critically determined by state power and its ability to effect institutional change, elite business model leadership in

Table 7.3: Cross-border division of value strategies and outcomes (references Table 2.2).

Ref.	Cross-border principal and stakeholder	Relationship and outcomes of international division of value strategies	IR theoretical perspective
[sec] 1/2 post-2022 [p]	*Scenario 1/2* Stakeholder (European states) vs Principal (US) (Visualized in Figure 7.6)	Relationship: European NATO member states acquire security services from the US. The US does not press its bargaining power advantage to compel European customers to defray the security costs in full (e.g., on a percentage of GDP basis) and security value is appropriated at below its cost (on terms even more favorable than 'equalized bargaining power equilibrium prices'). Outcome for stakeholder (Europe): European nation states (and its taxpayers) benefit from security services provided by the US. Value appropriated but *not* created (i.e., value transfer-IN). Outcome for principal (US): European security is funded by US taxpayers.[187] Value created but *not* appropriated (i.e., value transfer-OUT)	Liberal
[sec] 2/2 post-2022 [p]	*Scenario2/2* Stakeholder (European states) vs Principal (US) (Visualized in Figure 7.6)	Relationship: The US provides security to European states and uses its power (including of 'mind' with the 'rules-based order', "freedom" etc. narratives) to nudge European states to pay in full for the value they appropriate. Outcome for stakeholder (Europe): European nation states and their citizens benefit from security services provided by the US and defray the full costs. Value created and appropriated. Outcome for principal (US): The US is compensated for the security services it provides to European states. Value created and appropriated.	Realist (Liberal)
[cu]	Customer stakeholder (European firms	Relationship: Highly innovative US Big Tech firms hold monopoly or oligopoly positions (e.g., on search engines, software, or AI). As a result, they	Realist

187 The analysis does not consider the full range of elite business models embedded in the larger transatlantic security relationship. Therefore, while the US taxpayer might suffer transfer-OUT, specific US elite coalitions have long and properly profited from value created and appropriated.

Table 7.3 (continued)

Ref.	Cross-border principal and stakeholder	Relationship and outcomes of international division of value strategies	IR theoretical perspective
	and individual consumers) vs	enjoy a bargaining power advantage and set prices above the levels that would prevail in a competitive	
[p]	Principal (US Big Tech)	market under 'equalized bargaining power equilibrium prices'. Aware of cross-border extractive value transfers away from European firms (and consumers), politicians and officials like EU Commissioner Vestager propose measures such as the "break up" of monopolies (see Espinoza, 2020). Outcome for principal (US Big Tech): Value appropriated but *not* created (i.e., value transfer-IN).* Outcome for customer stakeholders (European firms and individual consumers): Value created but *not* appropriated (i.e., value transfer-OUT). *Note: Value transfer impact assessments notwithstanding, the innovation spillovers and increased efficiencies for European stakeholders (that have not undertaken the necessary business risks to create technological value) point to transfer-IN benefits.	
[cu]	Customer stakeholder (global firms and individuals) vs	Relationship: The People's Bank of China (PBOC) hypothetically promotes the electronic Chinese yuan (e-CNY) to the world (see Fullerton & Morgan, 2022, p. 17; Orcutt, 2023).	Liberal (partial realist and constructivist)
[P]	Principal (Chinese state)	Outcome for consumer stakeholders (global firms and individuals): A stable e-CNY increases currency competition in the global financial system and becomes a cheaper or safer option for non-Chinese businesses and institutions. Value created and appropriated. Outcome for principal (Chinese state): The e-CNY becomes an international settlements or reserve digital currency. Value created and appropriated.	

the international context requires grand strategy thinking and geopolitical savvy.[188] Firms engaged in international business must determine the extent to which they wish to appropriate value created (and value *not* created) overseas, a matter directly related to the power differentials between their own state and the state(s) of their foreign stakeholders as is depicted in Figure A5.9d: 'The Cross-border Elite Business Model Lifecycle', encompassing differing assumptions of home state power in the international system. At the state level, grand strategies (as discussed next in Section 7.3.3) concern themselves with the acquisition of national power to implement institutional change, that national elite coalitions are able to access and convert—along with power emanating from their own competitive advantages including 'knowledge'—into cross-border residual income streams.

Figure 7.6 returns to visualizing the value creation-appropriation (VCA) framework to further articulate the first example provided in Table 7.3, the US provision of security to European states, as a case of transfer-IN/OUT across borders. In this concrete international business relationship, and before Russian tanks rolled into Ukraine on February 24, 2022, European states, and especially Germany, are deemed to be security stakeholders that manage to exact value transfer-IN from the US, the principal. How so? Security is value creation, a public good that is not free to produce. The US delivers security services to European states through an expensive security umbrella, and it manages to appropriate a part of the value created (e.g., exports of weapons systems to European allies, while security in Europe also provides geoeconomic benefits to the US). Yet in monetary terms, American taxpayers have *de facto* subsidized Europeans who, instead of paying 3% of their GDP for defense, disbursed much lower contributions, just 1.4% in the case of Germany (Stockholm International Peace Research Institute, 2020). President Trump's criticisms of German free riding and his expressed wish that NATO allies pay 5% of GDP for defense (Posaner, Kayali, Brinkmann, Noyan, 2025) notwithstanding, the US has not historically deployed its full potential bargaining power on Europe. Does liberal rather than realist IR provide the best explanation for this unbalanced cross-border value appropriation? Or is it better ascribed to the dynamics of intra-elite contests in the US? Regardless, like its domestic counterpart, the cross-border elite business model logic analytically references the VCA framework to assess the division of value in international principal-stakeholder relationships.

The general implications of the ETED for specific cross-border elite business models in the global political economy are firstly that division of value strategies (from the VCA framework) apply to international business; secondly, the cross-border value appropriation capabilities of the elite business model depend to a significant extent on

188 An example from practice is the joint development by the Eurasia Group and KPMG International of "solutions that help businesses deal with geopolitical challenges in an uncertain world" under the assumption that, "the CEO must take on the role of Chief Geopolitical Officer to lead their organization to success in turbulent times" (see: https://www.eurasiagroup.net/services/corporate-partnerships).

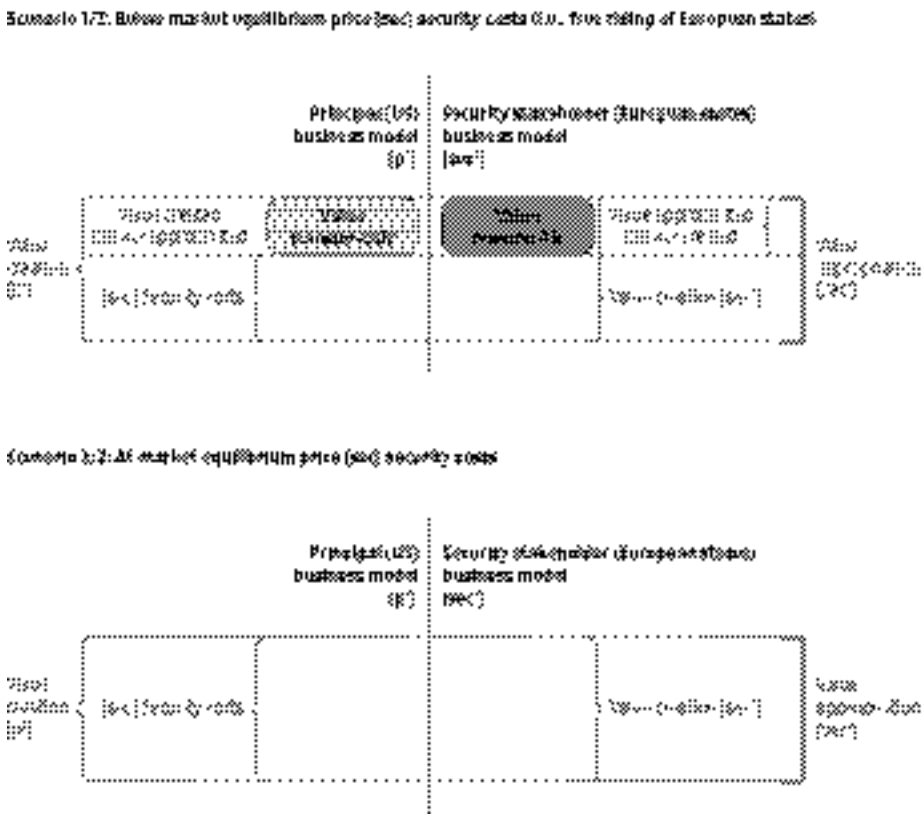

Figure 7.6: Cross-border division of value in the US principal-Europe stakeholder state-to-state security relationship: Scenario 1/2, security costs at below market equilibrium; scenario 2/2, security costs at market equilibrium.

state power; thirdly, the agency of the elite coalition running a business model enlists members of the core elite coalition of the state, or the specialized foreign policy coalition of the state (Jacobs & Page, 2005), for the realization of its preferences in international intra-elite contests through suitable international business rules; and fourthly, the state then effects international institutional change to the degree that its power endowments allow to shape the international opportunity set for its businesses. The all-important factor of state power is accumulated (see the discussion of IR theory in Section 7.3.1) through effective elite system leadership in the three *global* political economy arenas that parallel the domestic arenas (see Figure A5.1): market ('money'), non-market ('might), and narrative market ('mind'). The division of cross-border value analytical template (as above, in Figure 7.6, Table 7.3) can be applied to any cross-border business model that has international revenue such as renewable energies, payment systems, intellectual property and its protection, cross-border e-commerce, or the Belt and Road Initiative (BRI) and its Western alternative, the

Partnership for Global Infrastructure and Investment (PGII), launched by the G-7 in June, 2022.[189] It is later discussed in this section that cross-border business models with high sustainable value creation scores (i.e., IB-VCr) contribute to the economic development of host countries because they increase domestic intra-elite competition and weaken the power of extractive domestic elite coalitions.

A final reflection on cross-border elite business models concerns coalitions where the beneficiaries are members from diverse states. It is hypothesized that the more intertwined and interdependent elites are across the world, the stronger the common interest and the greater the bias against trade disputes, geopolitical divergences, and ultimately, war. Moreover, when elites from different states become members of a coalition their diverse national affiliations act as an additional check and balance against extractive practices across borders.[190] Members of such an international elite coalition are likely to project preferences for sustainable international relations that eschew the impacts of international conflict on their domestic institutions. This work has de-emphasized international elite networks that transcend a nation state (see the position taken on the transnational capitalist class in Section 1.2.2), but fully acknowledges the impact of domestic elites with foreign interests and their effect on economic development via national political economy mechanisms such as functioning as an additional tier of checks and balances in the elite system (see Tier 4 'across-system', Figure 5.11b). From an IR perspective, such coalitions are inclusive since their interest is in stability, all types of exchanges, sophisticated global supply chains benefiting from geographical specializations, and ultimately in peace. This general idea is expounded in Angell's *The Great Illusion*:

> What is the real guarantee of the good behaviour of one State to another? It is the elaborate interdependence which, not only in the economic sense, but in every sense, makes an unwarrantable aggression of one State upon another react upon the interests of the aggressor. (Angell, 1910/2012, pp. 302–303)

The assertion, just four years prior to the start of World War I, that interdependencies preclude conflict appears in hindsight to be somewhat myopic. If, as Keohane and Nye argue, "*asymmetries* in dependence" shape relative power endowments (2012, p. 9), then this may help explain the failure of Angell's model. Yet, IR scholars have been slow to pursue sustained inquiry into the decisive interdependencies: cross-border business models and transnational elite coalitions, ideally with the participation of core elite coalition members. One might argue that both were not as numerous and

189 The US government's original vision was ambitious with "the goal to mobilize hundreds of billions of dollars in infrastructure financing—delivering energy, physical, digital, health, and climate-resilient infrastructure", see: https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/

190 Evidence against this liberal assumption is provided by the EIC, an entity that would never have succeeded with its Indian extraction without local elite support such as the financial backing of Marwari bankers and "the military force of 20,000 Indian sepoys" (Dalrymple, 2020, pp. 35, 208).

robust in the context of the British-German relationship as they ought to have been to guarantee peace and stability.[191] The general argument is pessimistic and holds that as long as nation states exist, transnational elite coalitions are *ad hoc*, unstable, and create insufficient interdependencies between states to safeguard peace. By absenting robust elite business model links between Western nations and China, such as those found between England and Holland, the hard logic of realism, power, and geopolitical machinations result in fierce competitions between the core and other elite coalitions of different nationalities. Trade barriers, sanctions, and indeed war become the non-institutionalized means for (largely non-endogenizing foreign elite coalitions) to solve intra-elite contests 'across-system' (see Tier 4 intra-elite checks and balances, Section 7.3.1). The reflex is for domestic elite coalitions in competition against foreign elite business models to borrow or seize outright the might of the nation state in global arenas.

A corollary of this inquiry's elite theory is that international conflict is traceable to cross-border business model competition for value appropriation and transfers in the international context. Such an analytical lens would speculate, for instance, that the serious geopolitical discord between the US and Russia is not just determined by security considerations. Neither is it the result of conflicting narratives between democracy vs authoritarianism or Western liberal values vs the neo-eurasianism values of Dugin (2014) that highlights "the traditional social/cultural make-up of each civilization" (Shlapentokh, 2007, p. 2015). Rather, it is because the countries' respective elite coalitions never successfully managed to become joint participants in transnational elite coalitions or even develop a critical mass of cross-border elite business models. Moreover, and with some exceptions, their respective elite business models compete head-to-head for customers in international markets in sectors critical to both nations: energy, defense, and agriculture.

In power transition theory (Organski, 1958), relative power advantages stem from internal developments, as does war and peace, while the international arena is conceived as a "hierarchy of nations with varying degrees of cooperation and competition" (Tammen, Kugler, & Lemke, 2012). In this reading, the derived and now much-vaunted escalation of conflict conceptualized by the Thucydides Trap (Allison, 2017) might be avoidable by internal developments that push for higher degrees of elite cooperation. To the ETED, that implies winning elite coalitions ever more engaged in

191 In *The House of Rothschild* (1999), Ferguson describes the investments that helped power the industrial revolution. To realize their full returns and achieve value creation, peace was a necessity and so the dynasty "can be viewed as legitimate forerunners of the secretaries-general of the League of Nations and the United Nations" (Perkins, 2000, p. 486). By 1914, the Rothschild business model, despite its origins in Frankfurt, the salience of Vienna, and the fact that the original five branches and interests were spread across the continent, was firmly anchored in the city of London. In consequence, it had inadequate connections to the Prussian Second Reich and could not exercise sufficient influence to avert the conflict that destroyed the post-Napoleonic Long Peace. Ferguson (1999) recounts how the transfer of international relations power from Europe to the US, and of financial power to New York, caused the Rothschild's business model to experience decline.

international business, with individual members from diverse national origins having skin in the same game. Specifically, one would want to see a greater and significant number of Chinese and American, French and German, and Israeli and Gulf states' elite members intertwined in cross-border elite business models (where value creation, appropriation, and principal transfer-IN does not occur on the basis of borders or nationality). In an ideal world, US and British oil majors would develop unobstructed long-term energy projects in Russia's Far East, while the Russians would pump relatively clean and inexpensive gas through Nord Stream II until the energy transition is achieved; Facebook would operate freely in China; TikTok would be likewise untroubled in the US; Saudis would be major investors in Tel Aviv start-ups; and, as Emirati officials once stated (Bauer, 2022), UAE-Israel bilateral trade would exceed US$ 1 trillion over the next decade. A 'peace through cross-border elite business models' conjecture has now been variously formulated on immediately apparent grounds: interdependencies in international relations resting on cross-border elite business models and multinational elite coalitions.[192]

7.3.3 Implications for elite system leadership and the rise and fall of great powers

The varieties of elite system leadership are set out in Table 7.2. In the previous subsections, the international landscape was characterized by states competing with each other to achieve relative power advantages and rise in the global political hierarchy to affect international institutional change that supports the cross-border business models and interests of domestic elite coalitions. Grand strategy "defines a nation's international role, guides the alignment of means and ends, and serves as a lodestar for discrete foreign policy decisions" providing a "blueprint" of "future governmental behavior" (Lissner, 2018, p. 53). To Gaddis, grand strategy is "the alignment of potentially unlimited aspirations with necessarily limited capabilities" (2018, p. 21). To this inquiry, grand strategy is a vision for both state power *and* value creation and appropriation across borders, limited by the value appropriation capabilities of its elite business models. It is conceived by the core elite coalition largely in tandem with a

192 Configurations for global public goods come with an important caveat: elites across borders can play cooperative games to extract from their respective countries' non-elites. In *Trade Wars are Class Wars* (2020), Klein and Pettis provide an analysis of the "Chimerica" model (Ferguson & Schularick, 2009), the trade relationship where the US is the deficit country and China the surplus country. They claim that this business model benefits the elites of both countries: in the US, Wall Street or MNEs; and in China, the government and owners of movable capital. This comes at the cost of US non-elites, small business owners, or workers who lose their jobs, as well as Chinese non-elites—citizens at large who consume less, or workers that suffer from low wages. Sustainable value creation cross-border business model analysis must recognize that extractive transfers can cut across classes as well as across nations.

specialized elite coalition (in the US, the "foreign policy establishment", see Jacobs & Page, 2005) upon which all of a country's other elite coalitions can design—on more or less favorable terms—their international strategies. One of the tasks of elite system leadership is to produce effective grand strategies that are consistent with the institutional change preferences of domestic elites with cross-border business interests.

We saw that cross-border elite business models might include elites from multiple nationalities and that these, especially when the elite coalitions are transnational, create strong interdependencies across states that are helpful in promoting global public goods like economic growth or peace. Again, while transnational elite networks transcend the state and have foreign interests, for all the talk about globalization, the relevant institutional organizing principle for elites in international business remains the nation state. Thus, while Apple is leading a transnational coalition with Chinese elite members in manufacturing and distribution, it will never fully endogenize in the PRC and is still part of the American elite system and no other. HSBC Holdings (despite the 'Hong Kong' and 'Shanghai' in its name) is part of the UK system, even to the displeasure of "its largest shareholder, Chinese insurer Ping An" that had called for the bank's break-up and a split between its Asian and Western operations (Kinder & Morris, 2022). Participants in elite coalitions are often from diverse countries, but there is never any doubt about the state associated with the business model and the national elite system affiliation of each coalition member. It would be inconceivable for members of successful transnational elite coalitions, such as the joint venture between Shanghai Automotive Industrial Corporation (SAIC) and Volkswagen, to disengage from their own state-based elite system for the sake of efficiencies and profits, or to fall under the aegis of some international institution or cosmopolitan narrative. After all, a critical resource for the member elites of transnational business coalitions is the power of their own nation state. This was always so, for the Fugger's copper monopoly, the EIC, or the "vast material base that ultimately reached into every corner of the newly converted Indies" of "the various branches and agencies of the Spanish church in America" (Bauer, 1983, p. 707), and continues to be the case with Amazon, Mitsubishi Corporation, or PJSC Gazprom.

Elite system leadership in the international relations context requires a state that is sufficiently powerful to realize grand strategy that furthers the cross-border elite business model preferences and interests of its coalitions, whether they are corporates, science projects, media concerns, or NGOs. A typical illustration of elite system leadership attempting to achieve rudimentary domestic elite preferences is the German car manufacturing industry informing the then Federal Minister for Economic Affairs and Energy, Peter Altmaier, about the need "to ease a shortage of semiconductor chips in the auto sector which is hampering its fledgling economic recovery from the COVID-19 pandemic". At its bidding, Altmaier wrote to Taiwanese officials: "I would be pleased if you could take on this matter and underline the importance of additional semiconductor capacities for the German automotive industry to TSMC" (Reuters, 2021). While the eventual impact of the scarcity on vehicle production

around the world resulted in a staggering "cut from global production schedules" of 11.3 million units in 2021 and 3.8 million in 2022 (Vigliarolo, 2022), Altmaier's appeal was insufficient to materially increase the chip allotment for German manufacturers relative to their foreign rivals, exemplifying Germany's feeble international relations power.

Elites that create and appropriate cross-border value boost the power and advantage of their state in the international system. For instance, massively innovative and privately developed networks with chokepoints in data, finance, and trade such as CHIPS (the Clearing House Interbank Payments System), IP rights for semiconductors, or the centralized hubs for global networks of fiber-optic cables are, for Farrell and Newman, the cornerstone of America's *Underground Empire* (2023), exerting power over both friends and foes. This work hypothesizes that national power is most enhanced and realizes the highest long-term overseas profits when elites have high cross-border sustainable value creation ratings (IB-VCr). In turn, effective elite system leadership and grand strategizing by core coalitions augments the bargaining power of all elites in the international arena. Value extraction business models with a low IB-VCr are also furthered by state power but are less sustainable, create resentment in the countries where they are pursued (especially when local elites are the ones being extracted), and may diminish a nation's international bargaining power in the long run. Low IB-VCr coalitions are not just an embarrassment for other elite coalitions in the national elite system; they can also steer foreign relations into situations where many elite coalitions, even those with high IB-VCr scores, see their ability to appropriate value created cross-border eroded. In the extreme example of an aggressor in a war, the low IB-VCr military-industrial coalition might benefit, but competitive industries with high IB-VCr scores will see their exports, knowledge exchanges, or FDI projects suffer from institutional change caused by disrupted logistics, protectionist measures, or limits to accessing human and capital resources.

Elite system leadership and grand strategy also have a defensive component and serve to prevent foreign coerced value transfers from the nation's elites and nonelites. The dissimilar historical responses to foreign extraction by two elite systems facing critical junctures—and the resultant outcomes—illustrate the importance of effective transformational elite system leadership and of continuous business model transitions towards increased sustainable value creation:

> The first and second Opium Wars revealed disparities in military technology between China and the European great powers. Faced with internal unrest and the prospect of China's dismemberment, Chinese provincial leaders made an attempt at internal reform, the so-called Tongzi Restoration (1862–74), aimed at reforming the military, creating an arms industry, and strengthening traditional Confucian government. Although these and later reforms prolonged the Qing dynasty until 1911, they were insufficient to halt China's relative decline. (Taliaferro, 2006, p. 465)

The Chinese Qing imperial core coalition failed in its attempts to invigorate the incumbent national elite system, increase elite quality and sustainable value creation, and

prevent extractive transfers to Great Britain, other Western powers, and eventually to Japan. In stark contrast to the Tongzi Restoration that aimed to prop up the value creation of the establishment, Japan's contemporaneous intra-elite contests resulted in profound and genuine elite circulation and transformational leadership. As a result, the Meiji Restoration's economic development outcomes were diametrically opposed to the Qing reform attempts, and outright impressive by any standards:

> News of China's defeat in the Opium Wars, carried by Dutch and Chinese ships to Nagasaki and then relayed to the shogun at Edo (Tokyo), shocked Japan's feudal elite. The arrival of Commodore Matthew Perry and his black ships in Edo Bay in July 1853 ended Japan's two centuries of self-imposed isolation. The Tokugawa shogunate's inability to defend the country led to its overthrow in 1867–68 by a group of reform-minded samurai from Satsuma and Choshu, who acted to "restore" the sixteen-year-old Emperor Meiji. The new leadership then spent the next twenty years consciously and methodically emulating the military, political, technological, and economic practices of the European great powers. In particular, they built a mass army, a general staff system, and a centralized state bureaucracy modeled on those of Germany, and a navy modeled on the British Royal Navy. Within thirty years of the Meiji Restoration, Japan waged two wars: the first to supplant Chinese hegemony in East Asia and the second to prevent Russia from filling that power vacuum. (Taliaferro, 2006, p. 465)

The rise and fall of global powers is a dynamic linked to domestic elite quality and the value appropriation capabilities of cross-border elite business models and can be framed through value creation-appropriation (VCA) and elite system transformational leadership. During the Meji Restoration, Japan's new elites adopted the business models of industrialization and created astonishing amounts of value, allowing the country to launch its cross-border elite business models. When states have elite coalitions that amass wealth via sustainable value creation and engage in international business, their relative power endowments in the international system grow accordingly. In 'The Great Power Elite Quality Lifecycle', one important way for leading nations to initially emerge is through transformational leadership driving higher levels of domestic elite quality and total value creation (as captured by The State of the Elite System Framework for the political economy, Figure 6.5). On this basis, state power augments to support the increasingly effective overseas value appropriation of its cross-border elite business models. This process is visualized in the 'rise to global power' arrow of Figure 7.7, depicting in stylized form the rise and fall of states in the international system.

A state with reasonable levels of domestic elite quality has the resources to rise in the international system provided that it leads with a grand strategy where state power enables, and is in turn enabled by, cross-border elite business models. The advantages of these models being both inclusive and sustainable (with a high IB-VCr leading to a high cb-EQr) is highlighted by repurposing the four domestic elite system categories of The Global Influence of the Elite System Framework (Figure 7.5) to dynamics that might play out in the international hierarchy of Figure 7.7. Whether in tiny Singapore or the vast United States, relative power in the international system can be

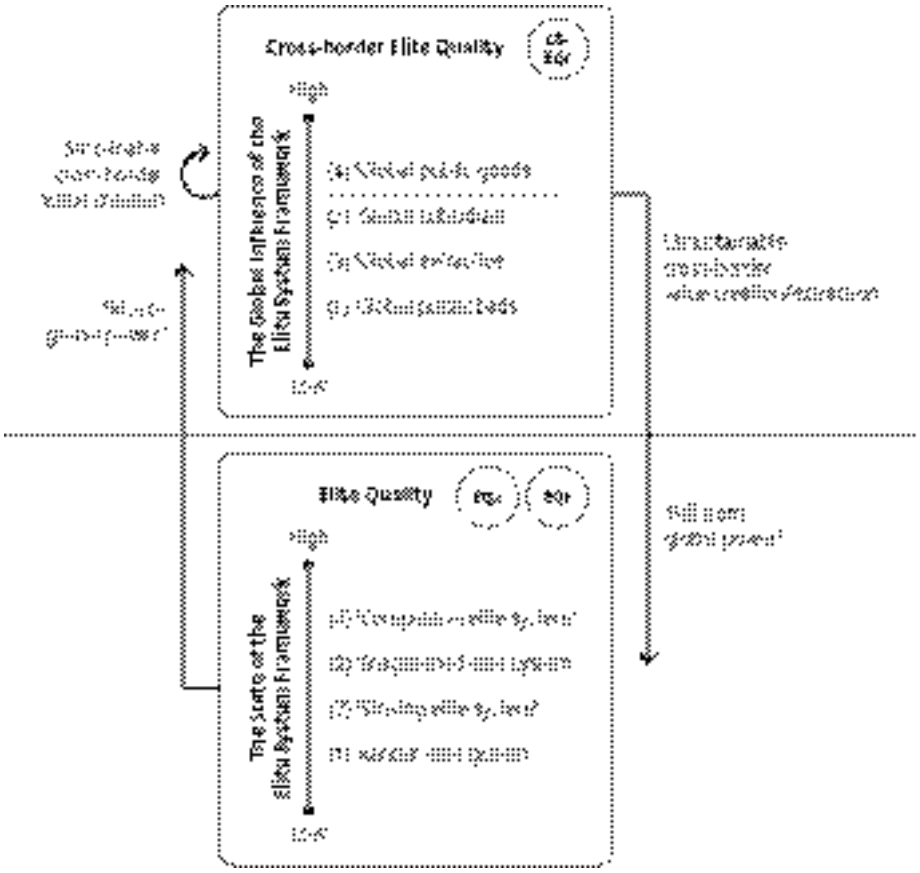

Figure 7.7: The Great Power Elite Quality Lifecycle for international relations.

augmented by wins in the globally competitive arenas of the narrative market (e.g., through ideas of prosperity or social justice), the political non-market (e.g., through defense capabilities or by shaping international organizations), or the market (e.g., through superior products and services). While domestic elite quality supplies the initial advantage for a state's rise (e.g., US capitalism's unparalleled engine of value creation, the Gilded Age and all, starting after its Civil War), one should not obviate the fact that low quality elites can also leverage extraction models at home to further grand strategies and boost their relative power overseas. England extracted not only from India and China from the 18th century onwards (with its imperial subjugation still patent during the Bengal Famine of 1943–1944), but for a long while also from its own industrial proletariat, as depicted in Charles Dickens' *Hard Times*. Stalin extracted from Soviet citizens, and the economic high-growth phases of the *pyatiletki* five-year plans that launched the state's military power came on the back of grain exports to procure the hard currency needed to fund industrialization, thereby becom-

ing indelibly tied to the harrowing Holodomor famine of 1932–1933 (see Snyder, 2010). That is, despite the value creation advantages of high elite quality posited earlier, grand strategy can also be based on effectively deploying the residual income obtained from low elite quality domestic elite business models to procure the relative power advantages needed to ascend in the international system's hierarchy of nations. The degree to which inclusive and extractive elite agency choices at home and aboard determine a nation's length of tenure at the top table, or its destiny after a fall, merits examination. The working and aspirational hypothesis is that while extraction abroad might work for a period of time, only the 'global public goods' elite system can sustain hard power in world affairs and the value appropriation of its international business models in the grand scheme of things.

Power attained in the international system is monetized through specific cross-border elite business models. Again, these might primarily rely on value transfers from stakeholders aboard (leading to low overall cb-EQr, as in the Vatican's indulgences and colonial business models), or be based on cross-border value creation. In the latter case, note the high cb-EQr, relative to the times, of the *Pax Augusta* and its provision of state capacity and infrastructure as evidenced by the "material fall" of Britain once the Roman Legions evacuated in the early 5th century (Fleming, 2021), or the *Pax Americana*, which permits foreign elites, like Japan's auto industry, to appropriate value created in the US. Most great powers use both approaches. The fierce critic of the British elite's opium-based global political economy reminds the reader in the closing section of his book that "the most long-continued and systematic international crime of modern times" (Fairbank, 1978, p. 213) *also* delivered value creation and inclusive transfer-OUT:

> Opium created pools of capital and fed the institutions that accumulated it: the banking and financial system, the insurance system and the transportation and information infrastructures. Those structures and that economy have, in large part, been inherited by the successor nations of the region today. (Trocki, 1999, p. 173)

Any cross-border business model, just like its domestic counterparts, combines value creation and extractive transfers in keeping with the 'all elite agency creates and transfers value' (realist) inference (see Figure 8.7). Both of these value amounts must be quantified and weighted, underscoring the relevance of firm-level SVC measurements for international business (such as the IB-VCr) and their diverse constituent metrics. Taken together, inclusive aggregate elite agency at home and abroad jointly sustain the virtuous value creation cycle of global public goods in the international system and contribute to worldwide human and economic development.

The Great Power Elite Quality Lifecycle is a framework for the analysis of the dynamics of international relations. The implicit premise for containment in Kennan's *The Long Telegram* (1946) was that the Soviet Union would not create sufficient cross-border value and over time decline of its own accord in line with the 'fall from global power' arrow of Figure 7.7 (an assumption now not made in the West for China). When the value creation engine of a state's elite coalitions splutters, cross-border sus-

tainable value creation decays. At that point, if sufficient global power endowments are still held, grand strategy turns to pursue foreign extractive aims. This is an unsustainable fix; great powers with extractive domestic elites on the rise (reflected by low firm-level VCr scores), do not avoid and will at best defray their decline (albeit sometimes by decades) if in order to spare domestic non-elites further pain their elite agency switches to second-order transfer business models overseas (as seen in declining firm-level IB-VCr scores). Telltale warning signs for international conflict are dwindling domestic elite quality (measured by the meso-level EQx or EQr) and cross-border elite quality (measured by the meso-level cb-EQr and, in some instances, by the more granular bl-EQr). When this happens to the hegemon, or to a big enough player in the international system, the fall—again likely originating with diminishing sustainable value creation at home—will reverberate through the fundamental structures of the global economy and disrupt development for all. How probable is the opposite scenario where a great power that is suffering decay at home reneges on its interests abroad and quietly dissolves à la Soviet Union? Is 'Japan-bashing' to 'Japan-passing'[193] likewise indicative of a transition where an economic superpower gently ages and wanes without upsetting others? Did Britain not readily transfer most of its international power roles to the US in the period from 1914 to the Suez Crisis of 1956? On the contrary, this inquiry holds that should any remnant of power be held at the end of a lifecycle, to easily forsake its use is rather exceptional. This is notably the case for (once) great nations on the wane that rarely abstain from using what remaining influence they have to the fullest, even doubling down and escalating a conflict when caught in Allison's Thucydides Trap (2017).

What underlies great power cycles in the literature? In *The Decline of the West*, Spengler's (1922) "tragic outlook" deems cycles and Europe's "Winter epoch" to be, in a peculiar and eerily metaphysical analysis, cultural (Chisholm, 1935, pp. 35, 37); Kondratieff's waves are technological, while Schumpeter's are entrepreneurial (see Section 1.3.2); Kennedy, in *The Rise and Fall of Great Powers* (1987), emphasizes the strains of economic and military overcommitment; Dalio's (2021) answer to "why nations succeed and fail" is a 250-year sequence characterized by long-term debt cycles and internal and external order and disorder patterns, all of which is reflected in human capital productivity; Ophuls, who takes a page or two from Gibbon's *The History of the Decline and Fall of the Roman Empire* (1776/2001), points to inertia and the ossification of "ruling ideas", and to institutions as "the civilization's elites may understand that the system is dysfunctional, but fundamental reform would require major sacrifice on their part, so they fight to preserve their privilege and power instead" (2012, p. 64). The IR literature proposes several other diverse cyclical conceptualizations. Modelski's "The Long Cycles of World Leadership" answers the realist question, "Who leads in world politics" (1983,

193 Japan-passing is used here in the same sense as it was by the late public intellectual, Jean-Pierre Lehmann.

p. 1; see also Modelski & Thompson, 1988); power transitions theory is anchored in the domestic growth factors that emerge from distinct development trajectories after the industrial revolution (Organski, 1958), or even in prior pre-Napoleonic periods (Kim, 1992); "power cycle theory" has a more liberal bent, stressing negotiated rules (Doran, 1991) and "conscious policy-intervention" for a dynamic balancing of power and "insists that power and role are each necessarily pluralistic and shared, although unequally across states" (Yoon, 2003, pp. 6, 7). The cycles that the ETED posits for the rise and fall of nations—and even of civilizations—are grounded in the sustainable value creation patterns of elite business models. Thus, The Great Power Elite Quality Lifecycle for international relations technically draws from The Elite Business Model Lifecycle (see Figure 4.5). That is, the rise and fall of nations is rooted in trends of national and cross-border elite quality.

If US economic and social vitality were to fall (as suggested by Doran, 1991; Mahbubani, 2018; Dalio, 2021) to a level where in comparative terms it could not generate sufficient domestic residual income flows to support its non-elite consumption or position atop the international hierarchy, the realist-leaning IR position of the ETED suggests that foreign stakeholders of US cross-border business models would be asked to pay a price; for instance, through higher prices for security, technology and energy, for access to the US market, through trade deficits, and by being forced to hold a reserve currency fated to devalue. Dwindling value creation and low elite quality at home is compensated for with increased value extraction from abroad on the back of accumulated power in the international system. The Great Power Elite Quality Lifecycle for international relations set forth in this work (and partially depicted in Figure 7.7), rests on the elemental 'value transfers replace value creation at maturity' conjecture (see Section 4.3.4 and Figure 4.5). A root cause of a nation's decline is the lack of incentives for an adequate number of domestic elite business models to engage in first-order productive activities as the overall 'elite power vs value creation gap' that underlies the 'value transfers replace value creation at maturity' conjecture widens. This also includes a failure to create and undertake risk[194] while maintaining elite coordination leadership and preserving power at home. Perversely, falls in the international hierarchy can be temporarily averted through the appropriation of value by cross-border business models from foreign elites and non-elites. However, this is unsustainable, and power will ultimately move on to other states. In times of transitions towards lower elite quality, the 'extractive escalation dynamic' plays out internationally when the elites of multiple states compete with each other for over-

194 The point on risk taking must be stressed: high risk means that there will be high returns, while those originating the risk must have skin in the game as per The Sustainable Risk Framework (Figure 6.9). All too often, elites in declining powers run business models that either do not originate sufficient risk (i.e., 'null risk origination') or transfer the *negative* value of the risk they originate to non-elites at home or to elites and non-elites in foreign countries (i.e., 'unsustainable risk origination'), in the latter case through wars or currency devaluations.

seas rents (as was the case between 1881 and 1914 in the Scramble for Africa, when value creation in America was eclipsing that of Europe).

Fast-forwarding to the 21st century, the Hinrich Foundation sees danger in subsidies that "perpetuate an unsustainable cycle of mimicry and retaliation" (Evenett & Fritz, 2021, p. 4). Specifically, since the EU Commission relaxed the rules on state aid in March 2022, approximately euro 650 billion has been handed out for "the manufacturing of strategic equipment" like solar panels or batteries, with Germany receiving about 50% of these subsidies and France about 30% (Chan, 2023 as cited in Blake, 2023, p. 85), while estimates show "that 84% of Chinese goods imports were in product lines where local producers had been subsidized" (Evenett & Fritz, 2021, p. 46). Subsidy races are just one of the types of conflict that subvert global coherence and, if the escalation of extractive cross-border business models is not curbed by elite systems at home, civil international relations are jeopardized. From a structuralist perspective, the unthinkable is therefore theoretically feasible and not unlikely: a US that in time goes from being a bountiful provider of global public goods (once boasting the highest cb-EQr in the historical record, see Figure 7.7) to becoming perilously reliant on extractive overseas transfers (gradually lowering its cb-EQr to compensate for falling domestic elite quality and value creation). The same logic is applied to China by Brands and Beckley in *Danger Zone: The Coming Conflict with China* (2022), where they claim that the country has peaked, is now in relative decline, and consequently forecast geopolitical conflict later this decade.

Further down the ladder are states that cannot muster the power to support the appropriation of value by their elite cross-border elite business models. In such cases, mediocre elites seeking residual income flows in lieu of value creation capabilities both at home and abroad revert to models based on domestic transfer-IN from their non-elites. The resultant lower elite quality scores mean greater vulnerability to external threats. Such a scenario is illustrated by the bureaucratic modernizing Tanzimat ("reorganization") reforms (1839–1876) in the waning decades of the Ottoman Empire that, while being liberal and Western-inspired, saw the centralization of the tax system to increase tax revenues (and hence transfers) from Turkish and other non-elites. Expanding domestic appropriation was also a low-quality elite system response in the late Spanish Empire, as well as for the Chinese dynasties that lost the Mandate of Heaven, that not only intensified their respective demise as regional or world powers but, more crucially, hindered sustained domestic development. Of course, it is by no means preordained that the loss of power in the international system is followed by regressive development at home. The comparative decline during the closing stages of the Habsburg or British empires did not see significant increments in domestic extraction, supporting the view that in the final analysis prosperity is more dependent on domestic elite quality and transformational leadership than on power in the international system. Once defined by their ability to command empires and master value appropriation abroad, how are the elite models of Europe faring today?

7.3.4 Implications for comparative elite system performance: The case of Europe

> Mme Richez-Lerouge says that the erosion of authentic French cheese is part of a "wider, national hypocrisy". For decades, she says, French governments have extolled the virtues of small-scale farming and quality food while "shovelling 80 per cent of European subsidies into the pockets of big farmers and the agro-industry". (Lichfield, 2020)

No national elite system exists in a vacuum. These key sub-systems of political economies interact with each other, as the discussion on international relations and cross-border elite business models has shown. Having applied the ETED to the international context, the implications of elite system leadership for international political economy distributional outcomes are now analyzed through a concrete case: the EU's 'partial' elite system, or 'elite non-system', by referencing Manent's *Metamorphoses of the City* and his "two mother forms of the ancient world" that exist in polarity to each other: "the city and the empire" (2013, p. 105). This section argues that because of weak (or even non-existent) elites, Europe currently has neither of these forms and examines the implications.

Manent argues that representations of the world and narratives "affect the political system" as he delves into the two basic political forms of Europe: "While the Greek polis was a narrow political framework for a tumultuous free life, the empire corresponds to a peaceful life under a master" (May, 2017, pp. 414–415). One might think of the polis as a space with equalized bargaining power, institutionalized intra-elite contests, and elite cohesion typified by vigorous bottom-up value creation; of sustainable value creation (high VCp/VCr) business models thriving in dynamic technological, industrial, trading, or agricultural ecosystems like Normandie, the Yangtze River Valley, Singapore, Dubai, or Silicon Valley. In the international system, the elites of these modern versions of the polis—mega-cities, regions, region-states, city-states—must be secure and enabled by sufficient state power at higher levels, leading to the idea of 'polis in empire'. Kaplan's "In Defense of Empire" (2014) takes this stance, and in an ensuing piece he references Manent in arguing that the future might belong to "the half-hidden traditions of empire" and to city-states, both of which are millennia-old human organizational structures (2016).

The 1648 agreement to establish the Westphalian system resulted in an institutional innovation, a historical anomaly that worked well for a few centuries in a Europe little exposed to outside forces: the nation state system. The question today is whether the European nation state is still an institutional arrangement that is effective in generating sufficient bottom-up value creation while also accumulating power to preempt extraction given the nature and scale of the cross-border elite business models of the 21st century? To explore this further, the 'polis in empire' framework is used to compare France and Germany with Switzerland and the US.

To start, one could contemplate whether France, Germany, and the other large European nation states have become too big and unwieldy. That is, are they prone to administrative diseconomies of scale by being both emotionally detached and intellec-

tually too far removed from first-order and local value producers. Is capture by national state-based elite coalitions all too easy? If so, what prevents the elite coalitions of nation states from advancing business model rules that harvest value from local and regional creators and engage in extractive transfer-IN while very cavalierly denying institutional resources to value creation at the polis? Breiding's (2019) factors for "why some small nations outperform larger ones" play a role here, but the key one is elite quality. As an illustration, the French political establishment has abandoned authentic *lait cru* producers at the state-level, while subsidizing elite brands manufacturing cheese from pasteurized milk; products that the famous *fromagologue* Gérard Poulard has called "cheese for people who don't like cheese" (Lichfield, 2020). The nation state elite system disincentivizes ecosystems that support "living cheese", an embodiment of French identity, and instead elicits institutional change in Paris (and thus in Brussels), as policymakers become the servants of a few mass-produced factory cheese elite coalitions (such as Lactalis Group, Danone, or Savencia Fromage & Dairy). In contrast, Swiss radical democracy and its polis-centric political economy explains not just the 450 varieties of Swiss cheese and the support that their producers and other value creators like SMEs or *Kantonalbanken* enjoy, but also a GDP per capita differential between France and Switzerland that is in favor of the latter by a huge margin.[195]

But European nation states are not only too big; they are also too small to pursue grand strategies that smartly respond to global challenges such as value extraction by foreign cross-border elite business models. Germany, once the global hotbed of innovation, no longer has any elite coalition of note active in the international arena.[196] Does Europe now require Manent's empire and Kaplan's imperial capabilities to be on a par with the US or China (and soon, India), in the international political economy arenas? The answer is no, but only if its elites can effectively integrate into the American elite system and participate on an equal footing in US intra-elite contests. European non-elites would also need to have some of the imperial might benefits of their American counterparts such as higher consumption levels than can be afforded with low levels of savings, or protection from cross-border value appropriation. If this is not feasible or wanted by either side, the road to empire starts with an elite system that is strategic enough to muster the transformational leadership clout to deactivate extractive transfer-OUT by foreign coalitions. Under the existing EU institutional model of a 'club of nation states', such an outcome cannot possibly be attained under a realist understanding of power.

195 The World Bank (n.d.-g) statistics for 2023 show that France and Germany's GDP per capita are US $ 44,461 and US$ 52,746 respectively, while Switzerland's stands at US$ 99,995. Since Switzerland's successful sustainable value creation is an embarrassment for the elite systems of Germany and France, this theory's realist version of international relations would advise the Swiss to be vigilant against extractive moves by the EU in both the political non-market and narrative market arenas.

196 Of the top 50 most valuable global companies, not a single one is German (see: https://companies marketcap.com accessed on January 28, 2024).

The first elite system problem of Europe as a club of nation states[197] is domestic extraction from the polis. In the EU, the nation state *is* the elite business model, and as such is not subject to checks and balances (even though this would be Brussels' Madisonian mandate). Europe is not a 'top-down' "elite project" (Best, Lengyel, & Verzichelli, 2012) and instead exists to consolidate the domestic power of national elites. As currently constituted, it is better classified as a 'middle-down' and 'middle-up' system. The principals of its nation state business models include assorted coalitions of civil servants, energy interests, banking institutions, or construction companies, and also some nation's capital cities that are themselves value transferees (the most noteworthy being Paris, Madrid, Berlin, and Rome). By privileged access to state power, nation state-centric elite coalitions unfairly compete against and appropriate value from the regions and polis. Their 'license to steal' extends to risk taking through the capture of the polis' innovative bets once these become successful, often with the aid of state resources. Part of this process includes coopting local elites into the nation state elite system (reminiscent of empires past),[198] consequently leaving the region or polis without elites and thus helpless in political economy contests.[199]

Nation state licenses for business models are doled out via food safety regulations, but also for what Gandhi and Walton (2012) and Klein, Holmes, Foss, Terjesen, and Pepe (2022) call crony capitalist sectors. Despite the commendable Brussels-driven single market initiative, most sectors remain structured around the nation state. Hence, Europe has "tariffs on itself" (Draghi, 2025), while in the telecoms sector, "recent entrants have found it difficult to enter and then thrive in mobile markets in Europe" with incumbents able to retain leading positions (Whalley & Curwen, 2012, p. 234). From a Madisonian perspective (*Federalist No. 10*, 1787/1977; see Section 3.3.3), Europe's nation states are "factions" that *de facto* capture the EU's supranational institutions. As global competitiveness is consequently lost, the elites of European nation states will increasingly deploy their coordination leadership towards a further tightening of the status quo. Germany and France will nudge Brussels towards a once dreaded yet strategically skirted protectionist "fortress Europe" (Hanson, 1998) to shield their elites from global competition, intensifying domestic extraction, and milking their non-elites and polis. With a 'missing elite system'—a European 'quasi'

197 The French Foreign Minister, Aristide Briand, a leader in the movement for a European federation between 1929 and 1930 and recipient of the Nobel Peace Prize in 1926 together with the German Foreign Minister, Gustav Stresemann, painted a picture of Europe as "a society in which the members are ruled by club law, as were states and castles in the darkest days of the Middle Ages" (United States of America, 1948, p. 388, as cited in Fulbright, 1948, p. 156). Even as some of Briand's vision of "common organs or authorities" has been successfully realized, the elite theory apprehends the EU as a 'club of clubs'.

198 In the Ottoman or Romanov empires, "peripheral elites" were coopted into the (often lucrative) role of "servants and agents" of the "central imperial elite" (Suny, 1997, p. 5).

199 Local elites cannot be reproached since the benefits of redistribution and transfers are too alluring; Lactalis originated in the small town of Laval and is now part of the French establishment.

elite system that is fragmented and only functional at the level of a powerful nation state—there can be no European elite cohesion[200] (see Section 5.3.3), much less elite system transformational leadership (Table 7.2) in support of the defenseless polis. Some influential local elites like the community-based German *Sparkassen* public banks or the Spanish hospitality industry will resist, but Europe's ecosystems, regions, and other incarnations of the polis can expect to see their bottom-up value creation eroded. This is the vital but overlooked reason why there will be fewer quality jobs and unicorns (Draghi, 2024, p. 232) than there should be, the SME sector will remain stressed with moderate numbers of young entrepreneurs, and, alas, there will be a piecemeal dying out of local cheesemakers.

The second elite system problem facing Europe is that it is on the receiving end of extraction from abroad given its relative powerlessness in the absence of 'empire'. Unsurprisingly, the EU has no Big Tech, no Big Oil, no Wall Street, and cannot defend itself, a cause of concern to many who "call for stronger European independence by promoting the creation of European champions, or by protecting European companies against foreign players" (Ramahandry, Bonneau, Bani, & Vlasov, 2021, p. i). So, while there is criticism of European integration as "steered and driven by the initiative of the elites", researchers are still trying to confirm the "Europeanness" of domestic European elites (Best, Lengyel, & Verzichelli, 2012, p.1). In Europe, national elite coalitions might run successful international business models and score highly in Europeanness surveys, yet this is all but irrelevant and should not lead to confusion: these 'European' elite coalitions do not have members from different nation states running cross-border elite business models that leverage the power differentials afforded by empire in the global arena.

When Google lobbies Brussels, its leadership strength does not emanate from hiring the most talented lawyers, but from having cross-border business model positions supported in Washington. In terms of cross-border value appropriation, US Big Tech would not enjoy its global hegemonic position (some areas of the non-West notwithstanding) without its membership in the US national elite system. US power differentials with the EU are often painfully obvious, as when US Secretary of the Treasury Mnuchin stopped the EU's digital tax talks with a single two-page letter to four European finance ministers "piling pressure on the EU to shelve its plans for a levy on digital companies" (Politi, Fleming, & Espinoza, 2021). Snyder (2019) claims that "The EU insulates its citizens from the empires of today: China, America, Russia; Amazon, Google, Facebook". While Apple restored the Epic Games' developer account "following 'a swift inquiry' from the European Commission" (Roth, 2024) and Google will eventually lose some battles and be fined in the EU (Hancock, 2024), neither will lose

200 The lack of elite cohesion in the EU is evidenced in times of troubles. A minor but representative illustration of this is the political knee jerk reaction driven by nation state elite coalitions to German pleas for solidarity in the face of falling Russian gas deliveries, captured in *Politico*'s headline: "Southern rebellion threatens to sink EU gas rationing plan" (Hernandez, Posaner, & Stamouli, 2022). The moment it faces a serious crisis, institutional Europe will readily break down.

their wars and be barely unscathed in terms of their value appropriation capabilities. The European lack of bargaining power underscores the likely inability of Margrethe Vestager, the EU Commissioner responsible for competition and digital policy, to walk the talk as the "EU warns that it may break up Big Tech companies" (Espinoza, 2020). This would be a consequential move, but given the facts it seems naïve at best and simply nonviable under the ETED version of realist IR. Time will tell to what extent the OECD/G20 Base Erosion and Profit Shifting (BEPS) project to increase transparency and prevent the use of shell companies works out as envisioned in the "Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy" which includes a minimum tax rate of 15% (OECD, 2021, p. 4). Will this institutional change effectively increase Big Tech's payments to national treasuries or dent its general cross-border value appropriation capabilities (reflected by IB-VCr scores) in any material way? If, when all is said and done, the Spanish National Markets and Competition Commission collects the massive half a billion Euro fine on Booking Holdings for "anti-competitive behaviour such as preventing domestic hotel groups from offering deals that are cheaper on their own sites than the price they offer on booking.com" (Espinoza, 2024a)[201]—essentially extraction from the polis—it will only be because the online travel giant fails with its elite coordination leadership in Washington DC.

The pseudo, make-believe elite system—the 'elite non-system'—cannot readily address the 'intra-elite quality contest' dilemma; its elite cohesion is a pretense, lacks a core coalition, musters weak transformational leadership, and has a siloed rather than comprehensive separation of powers. In comparative terms, Europe's brand of nation state-centric elite systems is no match for the 'polis in empire' institutional formulas of the American, Chinese, and now Indian political economies.[202] The EU can-

201 The comments section below this piece in *The Financial Times* sheds light on how this elite business model extracts from the polis. 'Notsopriti' writes: "It's a monopoly. Plain and simple. Particularly in Europe. Independent and small groups have to use it and pay 15–20% commission. That's just scalping. How much does Booking spend a year with Google just to keep their monopoly position? $6bn in 2022!" In response, 'PLNY' comments: "Having worked at their competitor more than a decade ago I can confirm that it's a somewhat parasitic business, especially towards independent hotels not in tier 1 cities. There were cases of hotels in rural Italy and Spain which generated 100% of their top line via Booking.com reservations, being charged 18% - the moment Booking would come to them and demand 25% they would have to comply as there was no alternative. What's more mind blowing is that 90%+ of the hotel online reservations market is controlled by Expedia group (owns: Travelocity, ebookers, hotels.com, Hotwire, orbitz, wotif, trivago, ebookers) and booking.com (owns: booking, agoda, Priceline, kayak, momondo) so as a hotelier you have close to zero choice, and as a customer you have a false sense of choice while looking online".

202 How do Europe's strangely inadequate (for the 21st century) national state elites, neither imperial nor polis-anchored, compare to US or China? In the US, any elite business model seeks to be part of the American empire, while the polis elites have been relegated to a different category (as in the 'flyover country' phrase). China fulfills Manent's 'polis in empire' idea with its time-honored imperial and polis elite configuration. The strong imperial elites based in Beijing are complemented and bal-

not accumulate enough relative power in the international system to properly support competitive cross-border elite business models (as, for instance, the French found when Australia scuttled the diesel-powered submarine contract with majority state owned Naval Group in favor of US or British nuclear-powered submarines).[203] The European elite system is at best partially formed, and without it there can be no elite system leadership. Hence, European elite and non-elite business models can't be expected to appropriate the full value that they create in the international business context (and much less aim for value appropriated but *not* created). This will affect European economic and human development and impoverish European elites and non-elites alike, especially in periods of global economic contraction when the elites of rival and non-rival imperial states will have all the incentives to convert their state power into residual income and appropriate increasing amounts of cross-border value.

In sum, the advantages of a robust elite system include the possibility to exercise effective leadership and accumulate power in the measure that value is created, resulting in the appropriation of higher residual income streams for elites and the minimization of extractive transfers from domestic non-elites to foreign coalitions. Europe's 'elite non-system' results in local non-elites paying the taxes not collected from Apple, whose "selective" treatment by the Irish government allowed it "to pay an effective corporate tax rate of 1 per cent on its European profits in 2003 down to 0.005 per cent in 2014" (European Commission, 2016). It also means lower elite coordination leadership, poorer ecosystems, data colonialism (see Couldry & Mejias, 2019), the inability to scale businesses, and therefore increased future extraction, as will likely be the case when new division of value strategies are rolled out for the AI brains of smart electric vehicles—or any other machine—by their foreign elite owners. Being on the receiving end of extractive cross-border business models has consequences for economic and human development, as China or India know all too well from their historical experiences with the West. The obstinacy of incumbent national business model configurations attached to European nation states, and the absence of high velocity elite circulation (see Section 1.3), leaves Europe at the mercy of value extraction and less valuable to its partners. A prosperous and strong "United States of Europe" in the spirit of Fulbright (1948) is in the strategic interest of the US, even if this is at first glance counterintuitive and disavowed by a narrow realist IR take. The status quo will remain until the issue of the missing elite system is fixed, reasonably whole and cohered European elite coalitions emerge, and a core elite coalition, possibly inspired by a version of Manent's 'polis in empire', becomes capable of strategic

anced by strong local elites (as seen in local protectionism *difang baohu zhuyi*). Polis elites, whether in Hangzhou (e.g., Alibaba or Volvo Car owner Zhejiang Geely Holding Group Co., Ltd.) or Ningde (e.g., Contemporary Amperex Technology Co. Ltd, CATL, the world's leading battery manufacturer) have influence in the capital and can leverage China's imperial capabilities as needed.

203 Despite France 24 (2022) reporting a "massive compensation deal", the euro 555 million settlement represents less than 1% of the original deal's value.

thinking, elite transformational leadership, and purposeful institutional reform (see Table 8.1). In the meantime, initiatives such as the Draghi report on *The Future of European Competitiveness*, designed among other things to close "the US-EU gap in aggregate total factor productivity (TFP), which is currently over 20% higher in the US" and hinges on subsidies and other forms of value transfers to the suggested tune of EUR 750-800 billon per annum, a massive 4.4% to 4.7% of the EU's GDP (Draghi, 2024, pp. 281–283), will not address the underlying problems and produce only marginal results that further impoverish the continent's next generations.

In the rare instances where elite business models in Europe are genuinely European, as is the case with ASML and its key suppliers such as Carl Zeiss SMT, the UEFA Champions League (the world's premier sport entertainment product), or Airbus SE (Societas Europaea),[204] astonishing levels of value creation and appropriation ensue. Such exceptions notwithstanding, European elite coalitions of note abscond or remain stillborn, leaving a continent dotted with local (German, French, Polish, Greek, etc.) elite coalitions embedded in their national systems and unfit for the 21st century. *The Brussels Effect* or being a "global regulatory superpower" (Bradford, 2020, p. 7), even where true, is inconsequential for economic and human development in the absence of European elite business models. This was made abundantly clear by the energy price hikes after February 2022 that should have dispelled the fantasy that "the EU has turned a weakness into strength and developed a set of tools that sharpen the way soft power is exercised in the energy section" (Goldthau & Sitter, 2015, p. 941). The realist IR framework implies that European value creators, both citizens and firms (including many national state elites), will become the rich feeding grounds for extractive cross-border business models operated by non-European elites leveraging the imperial capabilities of their own elite systems.

7.3.5 Implications of the world's missing elite system: The tragedy of the AI commons and a measurement

National elite systems anchor international institutions. Since elite agency and its transformational leadership variants are only operational at the national level, serving the interests of domestic coalitions on the international stage, can elite transformational leadership ever be helpful in tackling global challenges? Escaping "The Tragedy of the Commons" (Hardin, 1968; see also the common-pool resource problems of Ostrom, 2005) is already difficult enough within the confines of a nation given its prisoner dilemma qualities (Gardiner, 2001), and becomes all the harder when the shared

204 *Societas Europaea* is an apt legal innovation, "a type of public limited-liability company that allows you to run your business in different European countries using a single set of rules", see: https://europa.eu/youreurope/business/running-business/developing-business/setting-up-european-company/index_en.htm

resources of the commons involve multiple states, as is seen in environmental protection efforts and their attendant global institutions (Wijkman, 1982; Clancy, 1998). Initiatives like the United Nations Convention on the Law of the Sea (UNCLOS) require multiple elite systems to coordinate in order to build international regulatory bodies with enforcement authority. The optimist would argue that liberal common sense should rationally prevail in the face of existential threats to societies everywhere, as is the case with climate change. The hegemon's elite system, or the elite systems of large powers, would choose enlightened self-interest to overcome game-theoretical limitations and drive a multilateral elite bargain to force through sustainable value creation solutions for humanity. As the technology of intelligence rapidly evolves, humankind is about to confront a "Tragedy of the AI Commons", considered by LaCroix and Mohseni to be "a situation where no one has an individual incentive to cooperate, though mutual cooperation would lead to the best outcome for all involved" (2022, p. 1). The global challenge caused by the proliferation of AI technology is now perhaps more urgent than pandemics, wars, or the climate crisis. The pessimist, probably in the realist IR vein, would point out that national elite agency cannot address worldwide tragedies of the commons and a cross-border elite bargain will not materialize on theoretical grounds, even if global narratives and powerful international business models were to emerge around AI. This is consistent with current IR practice as seen in the uncoordinated national state responses to COVID-19, the breakdown of The Intermediate-Range Nuclear Forces Treaty (INF) in 2019, or how "Competition between the United States and China will almost certainly drive the militarization of space" (Araya, 2022). The 'elite non-system' conceptual element discussed in the context of the EU is even more pertinent on the world stage, since any institution—multilateral or not—is moot without functional and coordinated national elite systems.

One must consider the ramifications for the global elite non-system in the context of a global AI tragedy of the commons that could lead to a superintelligence doomsday scenario. What if knowledge elites irrefutably establish that the only solution is the deactivation of the AGI hardware brains across the world?

> Shut down all the large GPU clusters (the large computer farms where the most powerful AIs are refined). Shut down all the large training runs. Put a ceiling on how much computing power anyone is allowed to use in training an AI system, and move it downward over the coming years to compensate for more efficient training algorithms. No exceptions for governments and militaries. Make immediate multinational agreements to prevent the prohibited activities from moving elsewhere. Track all GPUs sold. If intelligence says that a country outside the agreement is building a GPU cluster, be less scared of a shooting conflict between nations than of the moratorium being violated; be willing to destroy a rogue datacenter by airstrike. (Yudkowsky, 2023)

How much time does humanity now have to preempt this tragedy and create global institutions that are ready for AI? Kurzweil (2005) predicts singularity by 2045, while Sokolsky suggests that AGI will only arrive "around 2040", and thereafter, in a process that will take 30 years:

> AGI spends decades convincing humanity to let it take over the global supply chains and to run complex experiments to manufacture advanced AGI-designed machinery, supposedly necessary to improve human living standards. [. . .] Once the AGI is convinced that all the cards have fallen into place and humans could be safely removed, it will pull the plug and destroy us all. (Sokolsky, 2022)

While the timelines may differ, the issue at hand for international relations is whether the core elite coalitions of nation states, many with interests in AI business models, can ever be "coordinated within a dedicated international body" (Future of Life Institute, 2023, p. 8) established in accordance with international treaties and conventions with executive prerogatives. But what will happen if and when it becomes apparent that an AI is incorrigible (in the sense of Soares, Fallenstein, Yudkowsky, & Armstrong, 2015, p. 75)? More specifically, can a decision to bomb GPU clusters (Yudkowsky, 2023) be consistent with elite transformational leadership at the international level, or would such a step be unilaterally taken—or not taken—by national elites?

At the inaugural AI Safety Summit at Bletchley Park, "leading AI developers agreed to work with governments to test new frontier models before they are released to help manage the risks of the rapidly developing technology, in a 'landmark achievement'" (Coulter & Sandle, 2023). Will these commendable intentions, in line with liberal IR, convert into binding international legislation and, at the moment of truth, see coordinated global action? Can a semblance of a world elite system emerge around the challenge posed by AI? Or, alternatively, and surely not the worst-case scenario in the face of chaos, can the AI technologies and elite business models of one particular state outpace the rest and reign supreme? As matters stand today, the elites of the two global superpowers, the US and China, but also those of other key players like India and Russia, will be addressing the existential threats of AI by holding fast to realist IR positions, each trying to come out on top. All of this confirms that the world—not just Europe—faces a missing elite system problem as is emphatically echoed by a Silicon Valley luminary:

> The single greatest risk of AI is that China wins global AI dominance and we – the United States and the West – do not. [. . .] We should seek to win the race to global AI technological superiority and ensure that China does not. (Andreessen, 2023a)

Elite transformational leadership at the global level is particularly sought in times of crises. Yet even when its absence is coupled with the missing world elite system problem, elite quality is still an actual emergent property of the global political economy. Technically, world elite quality can be conceptually determined without the existence of a functioning elite system at the international level. For those interested in deciphering or "improving the state of the world",[205] or, more concertedly, in assessing the impact of the AI or other global tragedies of the commons, understanding the to-

205 The World Economic Forum (WEF) often articulates its mission through the phrase "improving the state of the world" (see https://www.weforum.org/impact/), a worthy aspiration for elites that apprehend the world as a whole—a complex system of interacting and interdependent components in the sense described by Von Bertalanffy.

tality of the sustainable value creation of all elite business models on the planet (or of a particular sector) that is attributable to both domestic and cross-border elite agency is critical. Such an understanding can be described through a 'world elite quality' index based on tailored, all-enfolding indicators.

The data inputs for the operationalization of such a 'World Elite Quality Index' ('world-EQ') aggregate into a weighted elite quality sum of all national elite systems (and include their cross-border effects). The inputs for this consolidated global indicator are diverse and include: worldwide life expectancy and its variance among countries, international ecological benchmarks, the planetary size of the informal sector, criminal activities as a percentage of global GDP, worldwide educational attainment trends, global innovation rates and productivity changes, numbers of international patents, universal inflation, an aggregate of national crony capitalism, industry dominance in the world economy, the concentration of global wealth, and the prevalence of armed conflicts and battle-related deaths. While variance across countries technically poses an interpretative challenge, the longitudinal data for this SVC measurement reveals cardinal global trends: a declining world-EQ score provides a serious warning, maybe of an ongoing 'extractive escalation dynamic' of universal proportions with the potential to cause war, while an improving score signals an increasingly inclusive and prosperous global future for most humans. Of course, for any improvement in global sustainable value creation, transformational leadership has to take place primarily on a nation-by-nation/elite system-by-elite system basis.

7.3.6 Implications for international business research and practice

Beyond the study of international relations (IR) and its emphasis on cross-border elite business model practice, the ETED's system, conceptual elements, and SVC measurements, aspire to open avenues for research in the academic field of international business (IB). A number of testable hypotheses are now put forward for experimental scrutiny.

Rugman, Verbeke, and Nguyen demonstrate "that the three key units of analysis in IB theory over the past fifty years have been the country, the firm (MNE) and the subsidiary" (2011, p. 777). In the context of the ETED, the meso-level elite quality measurement (EQx) is an analytical instrument for the country unit, while the key micro-level sustainable value creation measurement (VCr) targets the MNE and subsidiary units. Consequently, SVC measurements might be used as independent variables to contribute to IB research streams in various ways, for example, to assess the degree of internationalization (DOI) (Sullivan, 1994; Ramaswamy, Kroeck, & Renforth, 1996), to consider performance patterns (Ruigrok & Wagner, 2003; Contractor, 2007), or to add to theories of FDI (Buckley & Casson, 1976; Rugman, 1981; Glaum & Oesterle, 2007). SVC measurements might also warrant introduction into frameworks integrating country-specific advantage (CSA) and firm-specific advantage (FSA) (Rugman, Verbeke, & Nguyen, 2011). The consistent 'value is created or transferred' ontology of the elite the-

ory (see Figure A5.4a) throughout its micro/meso/macro analytical levels (shown in Figure 3.8), and the articulation of the transmission mechanisms at work across these, is expressly adept at clarifying in novel ways the logic and connections between the country (host/home) and the firm (MNE/subsidiary) in the context of IB.

The propensity of a country's MNEs to internationalize might associate with national elite quality (EQx). Outward FDI can be "undertaken as [an] escape response to perceived misalignment between firm needs and home country institutional conditions" (Witt & Lewin, 2007, p. 579), as an escape response from "institutional fragility" (Shi, Sun, Yan, & Zhang, 2017), or as an escape response from problematic elite quality and intra-elite contest dynamics. The theoretical explanation for a positive correlation would be that firms in a country that is characterized by extractive transfers (with low VCr) are less competitive and thus less adept at entering foreign markets. If negative correlation patterns between the two variables emerge, an alternate theoretical explanation is required, with international expansion financed through rent seeking in the home country, which is in turn associated with low elite quality. This might have been the case with Japanese firms in the 1980s; the acquisition of the Rockefeller Center by Mitsubishi Estate in 1989 came at the very peak of Japan's asset bubble and the copious availability of cheap finance for the country's elite groups. In a similar vein, leading Spanish firms internationalized from the mid-1990s—with a primary focus on Latin America and its telecommunications, energy, and finance sectors—though in later years saw "the situation change drastically, as new competitors have emerged to undermine Spain's importance as an investor in the region" (Sánchez Díez, Galaso Reca, & García de la Cruz, 2017, p. 51). The falsifiable hypothesis is whether the original wave of FDI was enabled by value transfers such as the oligopolistic positions taken in the home market along with the new opportunities to access finance afforded by European integration and expectations of the then impending Economic and Monetary Union (1999), or whether these moves towards internationalization were driven by the ability of Spanish MNEs to create more value than their competitors.

The overall testable idea is that overseas sustainable value creation strategies (measured by either the SVC metrics of the IB-VCr or by IB-self-VCr questionnaires) have a causal relationship with home country cross-border sustainable value creation, either with the world in general (measured by cb-EQr) or with the particular destination (measured by the bl-EQr). The default position for the Japanese and Spanish cases above, or for MNEs based anywhere else, is that the less extractive a business model is domestically (e.g., by having a high VCr), the more competitive and inclusive it is likely to be internationally (reflected by a high IB-VCr). This is not inconsistent with Dunning's stress on "location *per se* as a variable affecting the global competitiveness of firms" (1998, p. 60). Subsequent inquiry would determine whether the host country elite quality (EQx) or the home country cross-border elite quality (cb-EQr) is the stronger factor in IB strategy and performance, and to what extent these are related or independent from each other. The host country perspective is essential, as MNEs with high sustainable value creation might shun markets with comparatively

low elite quality (EQx) systems that may prejudice their competitive advantage, compromise their IP, or have governance practices that are perceived to be too risky. The degree to which elite quality is a determinant of sovereign/country risk is a critical supplementary question for international finance.

In Section 5.3.2, the discussion on valuation frameworks for sustainable value creation noted that elite quality (EQr or EQx) could function as a moderator for country risk, and hence be a predictor of sovereign credit ratings useful for modeling debt yield spreads. The practical question that Damodaran (2023, p. 5) asks the individual MNE is: "Are you exposed to more risk when you invest in some countries than others?" The consideration of value creation/extraction (through the EQx or EQr) would help to quantify an answer. From an equity perspective, if elite quality is distinct from institutional quality, applying the research design of Winful, Sarpong, and Agyei-Ntiamoah (2016), might identify a novel driver for stock market performance. At the individual firm level, combining the contextual national elite quality scores with a VCr asset pricing "factor" in the manner of Fama and French (2015) could offer fresh insights. Other impacts associated with the relationship between elite quality and risk would be relevant to both international economics and IB. For example, FDI location-choice models (Che, Du, Lu, & Tao, 2023) could be upgraded. To the extent that "institutional efficiency" (Aizenman & Spiegel, 2006; Jung, 2020), informal institutions (Seyoum, 2011; Khan, 2010), "institutional distance" (Cezar & Escobar, 2015), or "institutional overlap" (Maseland, 2017) matter for FDI inflows on a comparative basis (see Nielsen, Asmussen, & Weatherall, 2017; Bénassy-Quéré, Coupet, & Mayer, 2007; Huang, Gong, Sun, & Lin, 2023), so will elite quality given the two-way causal relationship (see Figure 6.1) where it functions as an antecedent to institutional quality. Of course, it is conceivable that certain FDI projects follow an inverse logic, and so Cuervo-Cazurra (2006, p. 807) finds that corruption impacts "the composition of country of origin of FDI". That is, MNEs adept at running domestic extractive value transfer business models (low VCr) might consider the high returns and high risk associated with low elite quality as an advantage when investing in countries, as their rentier models might be more easily accepted by the host country's elites and replicated. Subsidiaries would then develop the right connections with politicians and establish other non-institutionalized means of doing business to facilitate extractive and profitable practices abroad (low IB-VCr). An argument to counter this approach of turning risk to advantage is that domestic extractive elites, including local partners, would use their embeddedness advantage to pull the wool over the eyes of extractive foreign MNEs as soon as they became capable of running a comparable business model of their own.

A central area of IB research is foreign market entry mode. The leading scholars in this body of literature examine the antecedents, choices, and performance outcomes of international expansion (Brouthers, 2002; Shaver, 2013), and even debate the appropriateness of further entry mode research (Shaver, 2013; Hennart & Slangen, 2015). Schellenberg, Harker, and Jafari (2018, p. 7) point out that comparative depen-

dent variables used for modal choices include: "Wholly Owned Subsidiary versus Joint Venture, Acquisitions versus Joint Venture, Export versus Foreign Direct investment, and contract versus Equity Joint Venture (Morschett, Schramm-Klein, & Swoboda, 2010); [and] Acquisitions over Greenfield (Chen, 2008; Slangen & Hennart, 2008)". Since entry mode choice is informed by culture (Kogut & Singh, 1988) and formal and informal institutions (see Meyer, Estrin, Bhaumik, & Peng 2009; Khan, 2010; Fuentelsaz, Garrido, & Maicas, 2020), it might also be influenced by elite quality. A set of testable hypotheses related to this work could be designed to ascertain whether the host country's (low/high) elite quality (measured by the EQr or the EQx) guides decision-making on whether to pursue M&As over greenfield strategies, or the joint venture mode over a wholly owned subsidiary. Additionally, if elite quality is associated with risk and transaction cost expectations, one might conjecture that host nation elite quality influences the degree of control (Gatignon & Anderson, 1988) that MNEs wish to exert over their foreign subsidiaries.

More generally, how "emergent" is strategy (Mintzberg & Waters, 1985) for an MNE? Is its practice informed by the elite quality trends of home and host nations, and if so, to what extent? A specific area of interest for researchers would be to assess over time the existence of purported 'chameleon effects', where MNE business models adapt the sustainable value creation of their overseas subsidiaries to local elite quality. Specifically, are the international business value creation ratings (IB-VCr) of Chinese or American subsidiaries the same in Switzerland as they are in Latin America? Will a particular MNE maintain its domestic high value creation model (high VCr) abroad or, as time goes by, choose to pursue extractive business models on the back of bargaining power differentials when it learns how to navigate the institutional deficiencies of the host market to extract rents (through directed wins in the local political non-market contest arena)? Are tax privileges, IP and other property protections, or access to government procurement programs evidence of MNE bargaining power differentials and to what extent do these emanate from strategies that leverage the home country's changing position in the international system (as posited in Sections 7.3.3 and 7.3.4) or from FSA and firm-specific capabilities (see Cantwell, 2014) such as superior technology? A particularly informative approach in addressing such questions is to check for differences between the sustainable value creation of the MNE headquarters and that of its subsidiaries (i.e., if the VCr is higher than the IB-VCr, state power must play some role).

Further to the economic questions on trade and FDI flows raised earlier (Section 7.1.4), including the discussion on Elite Quality Distance (EQ-dist), there is another area where IB and economic development meet that is especially relevant to policy: the incentive structures and patterns for FDI flows when income levels and elite quality scores are jointly considered for the respective home and host countries. Tang and Buckley (2022, p. 323) find that for emerging market MNEs there is an "asymmetric effect of institutional distance in different directions and in different FDI decisions, thereby offering solid and nuanced evidence to the directionality logic of institutional

distance". Emerging-to-emerging market, advanced-to-emerging market, emerging-to-advanced market, or advanced-to-advanced market FDI (and possibly financial portfolio investment flows) might all display discrete elite quality pairing directions and patterns. For example, if MNEs "coming from countries with better institutions than China are more sensitive to the institutional difference" (Che, Du, Lu, & Tao, 2023, p. 1934), does this hold for elite quality differentials elsewhere? Such findings would have normative implications on policy issues like the liberalization and opening up of trade, placing the spotlight on an underexplored mechanism: foreign entrants with comparatively high sustainable value creation positions might *a priori* contribute to transformation of local elites through Tier 4 'across-system' checks and balances (see Section 7.3.1; Figure A5.11b), bringing about higher elite quality in the host country (to the degree permitted by intra-elite contests and the related rules). MNEs with high cross-border sustainable value creation (IB-VCr) ought to be welcomed by inclusive elite coalitions in host countries to encourage weighted structural reforms. Dau, Moore, and Newburry (2020) find that cross-country investments have an impact on home and host country CSR reputation signaling. From a policy perspective, high national elite quality (EQx/EQr/PEz) scores (particularly when these are increasing as a consequence of reforms, see Section 7.1.5) are a fundamental signal that countries emit. Whether implicitly understood or reflected in sovereign risk evaluations, they attract high value creation elite business models from abroad (e.g., to Singapore), but also ensure a warm welcome for a country's firms when these expand into foreign markets (e.g., Swiss MNEs).

One way to test some of the above ideas would be to establish a model where the dependent variable is divestment (the failure of FDI, see Sethuram & Gaur, 2024) and the independent variable is elite quality, operationalized through the EQ-dist measurement (that establishes the elite quality distance between any pair of countries). While van Hoorn and Maseland claim "that current institutional research in international business is unable to explain how institutions matter for MNEs and that a more careful theoretical and empirical distinction between the effects of institutions and institutional distance on cross-border business activities is essential" (2016, p. 374), Beugelsdijk, Ambos, and Nell published work on the "international business research workhorse" nature of "the distance construct" and the "impassioned" discussions around its operationalization (2018, p. 1113). Most of the latter's recommendations are integrated into the EQ-dist by design. Foreign market entry mode choices, international diversification, and MNE performance have all been linked to two constructs widely used in the IB literature (Shenkar, 2001): cultural distance (Tihanyi, Griffith, & Russell, 2005) and institutional distance, "broadly defined as the difference between the institutional profiles of two countries"[206] (Kostova, Beugelsdijk, Scott, Kunst, Chua,

206 This statement is referenced to define EQ-dist as the difference between the elite quality profiles of two countries.

& van Essen, 2020, p. 468). This is unsurprising because "essentially, international management is management of distance" (Zaheer, Schomaker, & Nachum, 2012, p. 19). Following an approach akin to that taken by Mohr, Batsakis, and Stone (2018),[207] and with control variables that could include firm size (employees, assets, sales), DOI, year dummies, product diversification, competitive pressure, added cultural distance, firm age, and home market size, the hypotheses to be tested would include whether the greater the distance in elite quality (EQ-dist) between the home and host country, the greater the likelihood of divestment within a certain period (e.g., three years) after entry. Alternatively, researchers could investigate whether the positive relationship between EQ-dist and divestment becomes less pronounced when the investing firm has had a long-term prior presence in the host country.

The possibility of attaining novel understandings of organizational behavior in the international context with consequences for both practice and policy motivate the application of the conceptual elements of the ETED and its global and comparative SVC measurements to the IB research field.

207 Discussions with Dimitrios Georgakakis, Professor of International Business at Leeds University Business School, have informed this proposition for future research.

Summary of Chapter 7

The implications of the ETED

Chapter 7 covers the conceivable repercussions of the ETED's sustainable value creation conceptual elements for practice and research. The macro-level policy implications (7.1) are considered first before the discussion moves on to firm-level implications (7.2), and finally to implications in the international context (7.3).

Section 7.1 applies the two-way causal relationship between elites and institutions (Figure 3.2) to practice, and, on the premise that elite business model transformation antecedes sustainable institutional change, reviews policy. First, the general implications of the ETED for the economic policy mix (Figure 7.1) are discussed with an emphasis on weighted and targeted long-run structural reform measures (7.1.1). Then, the discrete implications for emerging (7.1.2) and advanced (7.1.3) economies are considered and the 'advanced economies have a higher sensitivity to elite quality' conjecture is proposed. Selected research directions and their relevance for policy are discussed (7.1.4), followed by an examination of the implications for policymakers (7.1.5) with the suggested 'A Weighted Structural Reform Policy Framework' for policy (Table 7.1). The analytical position includes an admonition against mishandling broad and short-run fiscal and monetary levers in favor of weighting and offsetting value transfers for tailored industry-by-industry approaches to enhance value creation via micro-interventions that adjust the incentive system. The role of knowledge elites in targeted structural reforms, the potential of 'weighted transfers modeling' (more formally referred to as the 'weighted transfers general equilibrium' macroeconomic model, or 'WTGE'), and the need for consistent narratives is emphasized throughout.

Section 7.2 reviews the firm-level implications of the ETED for elite business model transformation and for recognizing sustainability as value creation. It starts (7.2.1) with the implications of sustainable value creation at the organizational level. 'The Sustainable Value Matrix' performance framework for management (Figure 7.2) links sustainable value creation (VCr) on the x-axis and firm performance (profits) on the y-axis to derive a typology of four business model classifications: (1) 'sustainable'; (2) 'naïve'; (3) 'rentier'; and (4) 'living-dead'. The subsequent sub-section (7.2.2) explores the implications of sustainable value creation at the board level, shifting the current debate beyond the conventional CSR and ESG discourse by suggesting that the raison d'être of governance should be the alignment of residual income and economic development with the explicit aim of minimizing extractive transfers from stakeholders. Next (7.2.3), the implications of sustainable value creation at the intra-organizational level are outlined with the universal dualism that 'producers' (inclusive individual value creators) and 'takers' (individual beneficiaries of transfers from value creators) exist inside any organization or social unit (including families); their relative weight within the whole dictates collective success or failure. This leads to consideration of the implications of sustainability for leadership (7.2.4). The typology of the five varieties of elite leadership

(Table 7. 2) includes two 'transformational' types at the firm and elite system levels that are essential for inclusive economic development. Then, the discussion moves to the implications of sustainable value creation for investors (7.2.5). 'The Sustainable Value Matrix' provides the basis for 'The Sustainable Finance Matrix' framework for investments (Figure 7.3) which also links the key firm-level sustainable value creation measurement (VCr) on the x-axis and firm performance (profits) on the y-axis to derive four investment category quadrants: (1) 'sustainable'; (2) 'non-profitable'; (3) 'non-sustainable'; and (4) 'non-investable'. In the closing sub-section (7.2.6), the comprehensive value creation perspective is captured through the 'The Value Transfer Strategy Matrix', a sustainability framework for firm principals and stakeholders (Figure 7.4) that sheds light on one the most consequential characteristics of strategy, that which associates with the quantity of a firm's inclusive/extractive value transfers. The VCr on the x-axis denotes a range from value 'keeper' to 'giver' (with its positive value transfer-OUT focus), while the VCp on the y-axis denotes a range from value 'extractive' to 'inclusive' (on account of its extractive value transfer-IN focus). The ensuing four strategies are then defined as: (1) 'inclusive giver'; (2) 'extractive giver'; (3) 'inclusive keeper'; and (4) 'extractive keeper' (or 'taker').

Section 7.3 shifts gear to examine the implications of the ETED through an international lens. In the first sub-section (7.3.1), a realist-leaning conceptualization contributes to international relations (IR) by stressing that state behavior in the international system is motivated by domestic elite business models that pursue institutional change to facilitate cross-border value creation and appropriation. The SVC measurements introduced here are the 'Cross-border Elite Quality Rating' ('cb-EQr') that assesses 'country A vs the world'; the 'Bilateral Elite Quality Rating' ('bl-EQr') for 'country A vs country B'; and a firm-level counterpart, the International Business Value Creation Rating (IB-VCr). 'The Global Influence of the Elite System Framework' for international relations (Figure 7.5), combines domestic elite quality (EQx/EQr) on the x-axis with cross-border elite quality (cb-EQr/bl-EQr) on the y-axis. The ensuing four elite system characterizations are: (1) 'global public bads'; (2) 'global subsidizer'; (3) 'global extractive'; and (4) 'global public goods'. The focus of the following sub-section (7.3.2) is on the non-aggregated and practical view of the cross-border elite business model and the distributional outcomes resulting from cross-border division of value strategies (Table 7.3). Insights are also made on the topic of war, and the 'peace through cross-border elite business models' conjecture argues for two interdependencies in international relations as guarantors of peace: cross-border elite business models and elite coalitions with members from diverse states. Next, the international implications of elite system leadership are discussed (7.3.3), suggesting lifecycle patterns for the rise and fall of states in the international system brought about by domestic and cross-border elite quality patterns (Figure 7.7). In 'The Great Power Elite Quality Lifecycle' for international relations, leading nations may emerge out of transformational leadership towards higher domestic elite quality that augments state power and supports increasingly effective value appropriation by cross-border elite business

models. As with firms, the fall of a state is argued to be the final consequence of power endowments outpacing value creation and then being leveraged for extractive transfers. Comparative elite system performance for advanced economies requires institutional arrangements that include incentives for bottom-up value creation (a vibrant polis) as well as the power of a top-down elite system to protect a state from cross-border transfer-OUT (a strong empire). This 'polis in empire' framework is used to understand Europe's future given its current partial elite or elite non-system (7.3.4). The elite non-system issue is also salient if the world is to avoid a global tragedy of the AI commons (7.3.5). Finally, novel possibilities for international business (IB) research are considered (7.3.6).

With the introduction of cross-border measurements, this chapter concludes the main operationalization aims for sustainable value creation in the context of an elite theory of economic development, which have already commenced with the Elite Quality Index (EQx). While many measurements have been described in this text, more are either already in existence or in the process of being developed, while yet others are slated as projects for further inquiry. A visual recap of the SVC measurements family is provided in Figure 7.8 (a descriptive summary is offered in Table A3.1a). These can be grouped according to the domestic/international perspective and the micro/meso/macro analysis level into six categories (i to vi) in which each of the 18 selected measurements belong (the numbers in brackets and in the figure approximate the realization sequence):

The (i) domestic/micro measurements are: self-VCp[2], self-VCr[3], VCp[4], VCr[5], 360-VCz[12], and 'The Five SVC Valuation Frameworks[17];
the (ii) international/micro measurements are: IB-self-VCr[12] and IB-VCr[13];
the (iii) domestic/meso measurements are: PEz[7], EQr[9], and sector-VCr[18];
the (iv) international/meso measurements are: EQx[1], EQ-dist[6], world-EQ[8], cb-EQr[14], and bl-EQr[15];
the (v) domestic/macro measurement is the WTGE[10] macroeconomic model;
the (vi) international/macro measurement is the G-WTGE [16] macroeconomic model.

All SVC measurements can supply insights for political economy AI services such as the 'chatbotEQx' (see Chen, Lu, Scherl, & Sutter, 2025). Two of these underpin the approximation of a 'political economy omniscience' of value transfers that could eventually matter to economics, management, politics, and finance—the WTGE[10] and the GWTGE[16]—conceived to realize 'weighted transfer modeling'. Their relationship to a postulated 'weighted transfers game'—the domestic WT-Game and the global GWT-Game—as well as to the ind-VCr for individuals, is depicted in Figure A5.10, while their ability to shed light on value flows across society's groups is shown in Figure set A5.14. Moving on from the dense set of implications of the ETED considered in Chapter 7, the closing chapter of this book takes a singular and final turn on elite leadership by adopting the non-elite perspective, revealing the speculative and pragmatic philosophies of the ETED, and articulating the ethical system the theory suggests.

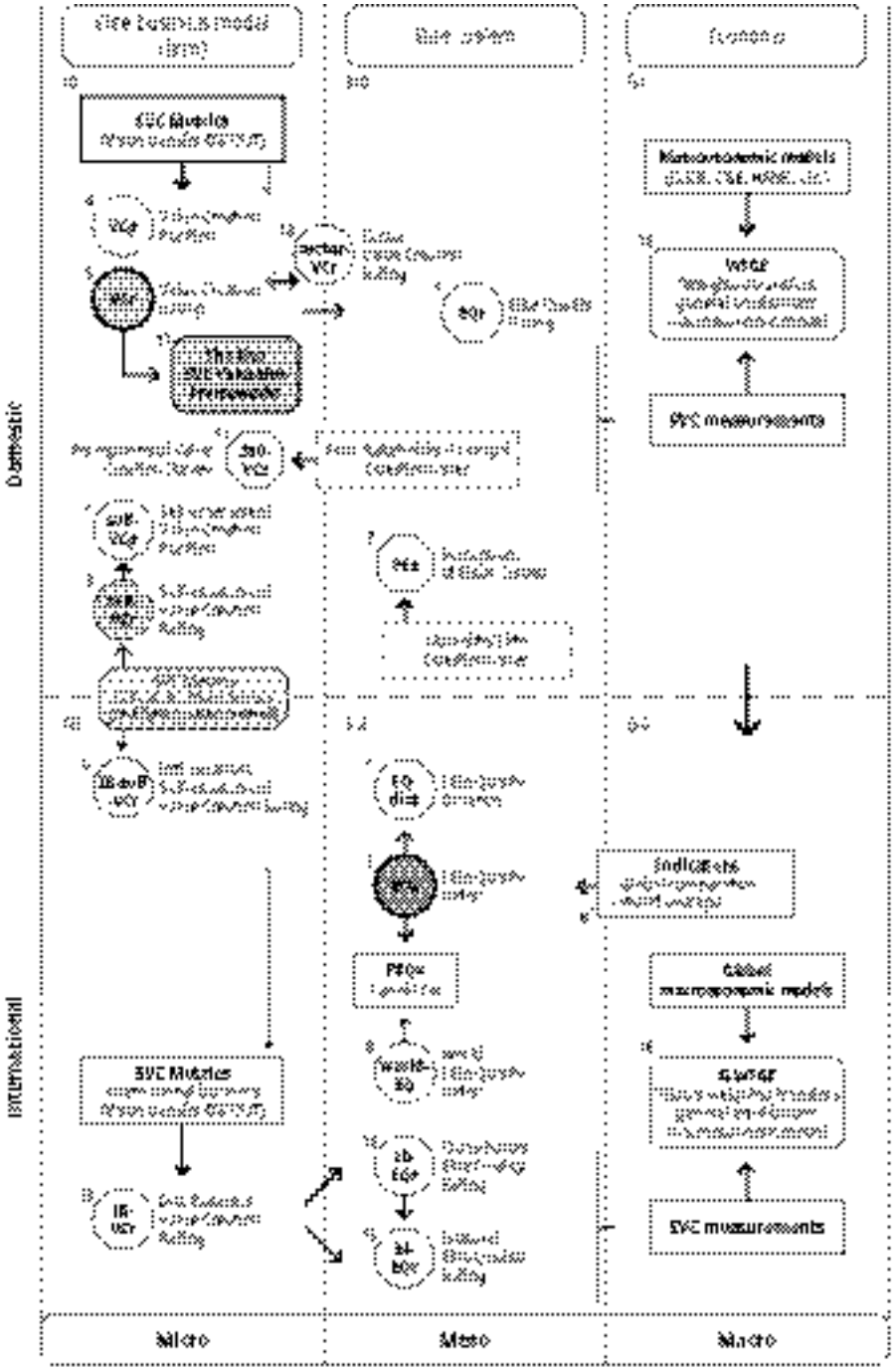

Figure 7.8: Overview of the sustainable value creation (SVC) measurements of the ETED.