

Preface

The conceptual and exploratory nature of this inquiry

The complicated analyses which economists endeavour to carry through are not mere gymnastic. They are instruments for the bettering of human life. The misery and squalor that surround us, the injurious luxury of some wealthy families, the terrible uncertainty overshadowing many families of the poor—these are evils too plain to be ignored. By the knowledge that our science seeks it is possible that they may be restrained. Out of the darkness light! (Pigou, 1920/1932, Preface, p. vii).

Elites are the fundamental force that shapes societies. The agency of elite coalitions characterizes the political economy and determines economic and human trajectories. Yet it remains the case that elites are not duly articulated as a conceptual element in mainstream economic theory. Rather, academia and the public discourse associates elites with fallacies, and systematic attempts are rarely made to understand elite business models and link these to institutional change, ascertain their impact in terms of sustainable value creation, develop economic policy, and deliver targeted structural reform. Elite agency is only considered reactively or in exceptional times, as is the case with The International Military Tribunal at Nuremberg, the West's sanctions on Russian elites in response to the invasion of Ukraine (Bertrand, 2022), or the ascendance of the so-called 'tech bros' at the onset of the second Trump Administration (see Epilogue). Otherwise, elite agency is either obfuscated by unsystematic narratives or overlooked by most development research agendas that fail to methodically model its inclusive and extractive effects.

Human societies evolve, and our 10,000 years of social advancement is undeniable. Yet, developmental outcomes vary wildly across political economies in time and space; a diversity that is primarily due to the creation and transfer of value and risk driven by domestic elite agency. About a century ago, Pigou, in the above-cited preface to *The Economics of Welfare*, explained that the objective of developing political economy knowledge is to help constrain processes that are contrary to societal welfare. This work has been conceived to further such insights.

The theory this book promulgates is that the value creation of elite business models determines the fate of nations. Business models based on first-order productive activities create value not only for the organizations and individuals performing them—they benefit us all. On the other hand, there are also extractive business models based on all forms of theft, including inflation, under/overregulation, substance abuse, monopolies, discrimination, war, and trade barriers. These enrich a few winners while impoverishing the rest creating a net loss that stymies overall economic growth. The elite business models of dominant coalitions like corporations, civil servants, financial houses, the foreign policy establishment, billionaires, or labor unions have the potential to do both good and bad. This whole inquiry rests on a simple but foundational ontological as-

sumption: ‘value is created or transferred’. Societies are therefore characterized by value creation to the degree that second-order transfers from one subset of society to another are limited.

Development is the result of continuous elite transformational leadership to consolidate sustainable value creation business models that reject value and risk transfers. However, even the fairest of political economies—capitalizing on robust intra-elite contests, a comprehensive elite separation of powers and strong elite cohesion—see elite agency short-circuited by new tests and temptations, from the growing climate crisis to artificial intelligence (AI). Society requires capable elites committed to the relentless pursuit of institutional change and structural reform that is weighted and targeted, both in terms of the incentives that are provided and the restraints that are placed on business models.

This work references theories on elites to build a conceptual architecture that links elite agency to economic and social outcomes. Elites are examined objectively on the back of rich and diverse philosophical, sociological, and economic traditions that leverage the notions of Aristotle, Frédéric Bastiat, Karl Marx, Joseph Schumpeter, Vilfredo Pareto, Gaetano Mosca, Robert Michels, Mancur Olson, C. Wright Mills, Gordon Tullock, Robert Tollison, Anne Krueger, James Buchanan, George Stigler, William Baumol, Douglass North, Francis Fukuyama, Alice Amsden, Daron Acemoglu, James Robinson, David Brady, Michael Spence, Stefan Dercon, Peter Turchin, and many others. The ideas of Adam Smith, Arthur Schopenhauer, Friedrich Nietzsche, Carl Menger, Arthur Pigou, Frank Knight, Erwin Schrödinger, Oliver Williamson, Ronald Coase, Erich Fromm, Hannah Arendt, Friedrich Hayek, Harry Markowitz, Amartya Sen, Adam Brandenburger, Nassim Taleb, Ruth Aguilera, Roberto Garcia-Castro, Eliezer Yudkowsky, and Marc Andreessen are not about elites *per se*, yet they inform key aspects of this work’s conceptualization of elite agency. To this inquiry, elites are the conceptual element that best explains socio-economic reality, a unifying force that brings together diverse areas of the social sciences and is of the highest order of impact.

The value creation-appropriation (VCA) framework is applied to division of value strategies to elucidate how elite agency, aggregated at the national elite system level, generates variances in economic and human development outcomes. The importance of ‘elite quality’—defined as the aggregate amount of value creation in relation to value extraction in an elite system—is especially topical in light of ever more rapid technological disruptions or systemic shocks like pandemics or wars. In some nations, elites are poised to increase the *size* of the economic pie (e.g., through innovation), while in others they will focus on increasing their *share* of the economic pie (e.g., through government handouts), thus shrinking it overall. At the same time, we have been witnessing growing non-elite discontent—and even an attempted insurrection in the US—since the 2008 Great Recession and its aftermath, with the fatidic 2020s characterized by increasingly bitter intra-elite contests, a lack of elite leadership, and the erosion of social cohesion in all its forms. These destabilizing events are happening across the planet, begging the question of where humanity is heading. The elite theory of economic development (here-

inafter also referred to as the ETED) that this inquiry develops posits parsimoniously that everything, including non-elite discontent, depends on the scale of extractive value and risk transfer activities and the amount of rent seeking prevalent in the economy. Political economies with inclusive elite business models and high rates of value creation and risk origination, regardless of their ideological persuasion, cultural background, or institutional trajectories will be best positioned to deliver better futures for their citizens.

To achieve its purpose, this inquiry takes an integrative interdisciplinary approach towards whole and grand theorizing in the social sciences. Such a unifying “systematic” project must acknowledge Mill’s critique of “a theory of history” and “a theory of ‘the nature of man and society’” (1959, pp. 22, 23) “in the name of imagination” (Skinner, 1990, p. 3) and contend with both the post-modernist and positivist aversions to general theory that Fukuyama (2016) articulates, while attempting to craft a coherent system inspired by intellectual traditions as diverse as McGilchrist (2021) or Taleb’s *Incerto* (2020, pp. iv–v). However unorthodox this approach might be it seems justified by the requirements of practice, as any undertaking that wishes to have constructive impact in the social sphere cannot be split up and corseted by the silos of academia. Although this book’s approach will justly be deemed to be speculative according to the benchmarks by which research is currently judged, it seeks to be a reference for study in fields such as economics or finance. At the micro-level, the sustainable value creation premise supplies frameworks and measurements for managerial decision-making, capital allocation, and regulatory processes. The financial ‘quantifiability of value transfers’ assumption encourages action in line with the ‘weight and offset value transfers’ implication for principal-stakeholder relationships (see Figure A5.4a). A further applied challenge of this work is to address the political process; to nudge grassroots movements and the demands of citizens (referred to as ‘non-elites’ throughout this work) towards responding to the *qui generat valorem* (‘who create value’) question by allying themselves with high quality elites while resolutely opposing rent seekers across the board.

Evidently, a key requirement for such a multi-level, interdisciplinary, and exploratory undertaking is a clear structure.¹ Part I (Propositions) presents and refutes three popular fallacies about elites before launching the broad inquiry into the subject with a series of 20 propositions spread across three chapters. These propositions are specific theoretical positions developed from a review of the extant multidisciplinary

¹ In this book, the development of discrete ideas often occurs not sequentially but progressively (and often somewhat haphazardly) across different sections and chapters. This is the result of their broad scope, the cross-disciplinary approach, and the incremental inputs required for their advancement. For instance, firm-level sustainable value creation is first introduced Chapter 2, further steps for the conceptualization and operationalization of value transfers are described in Section 5.3.1, and the all-important metrics are discussed in Section 6.6.1. To articulate the implicit structure while orientating the reader, all chapters have introductions and summaries, while pointers to the ideas that crisscross the text are provided by detailed cross-references.

ary literature on elites; taken together they constitute the foundation for an integrated theory of economic and social development. Conjectures are also advanced throughout the book, some of which are quite bold and controversial, many based on intuition and lacking substantive evidence as yet. While provisional, all are designed to be testable assertions. Conceptual elements and their definitions are also submitted. These ultimately flow into the development of a logic for elite agency (Chapter 1), elite business models, the sustainable value creation of which can be established with firm-level measurements like the Value Creation Rating (VCr) (Chapter 2), and ultimately the meso-level national elite system (Chapter 3).

In Part II (Integration) the structure that binds the propositions, conjectures, and conceptual elements together is tightened with an examination of how elite agency is both constrained and enabled by (bargaining) power and institutions (Chapter 4). The emerging system is then articulated through a comprehensive account of how the economy works, and a proposal for the elite theory of economic development (ETED) grounded on sustainable value creation elite business models is presented (Chapter 5).

Part III (Implications) takes the ETED, now a refutable grand social science elite theory of economic (and human) development, and operationalizes its cardinal ideas and principles through the existing comparative measure of elite value creation—the global ‘Elite Quality Index’ (‘EQx’) (Chapter 6). The inquiry, having suggested multiple measurements to test the theory, then proceeds by considering the research implications of the ETED to the fields of management science, finance, or international relations, while providing applied frameworks for decision-making. In terms of public policy, the emphasis is on seeking targeted and weighted structural reform to adjust the economy’s long-run incentive system rather than relying on mainstream broad fiscal and monetary approaches (Chapter 7). In closing, this study gleans a socio-economic structure that is used to advance the applied notion of transformational elite leadership. Non-elite interests are central, and the required freedoms to realize these are implicit in a set of ethical principles that animate the ETED and are derived from the maxim, *To the creators the value created* (Chapter 8). The final chapter wraps up the work by affirming the speculative and pragmatic philosophies that anchor the elite theory paradigm and its applied transformational leadership positions.

As a conceptual work focused on developing a falsifiable elite theory of economic development, this inquiry suggests “new relationships among constructs”, specifically through the original interpretation of extant research to “provide an integration of literatures, offer an integrated framework, provide value added, and highlight directions for future inquiry” (Gilson & Goldberg, 2015, p. 127). The starting point for this endeavor is the determination, selection, and classification of conceptual elements or variables from a wide range of sources in economics, management science, finance, sociology, political science, international relations, and philosophy. When applying the ETED’s integrative logic and language to this diverse set of disciplines, discretionary judgments are made to establish their contributions to a system grounded in premises that would conventionally run up against the walls of academic silos. This

approach has led, for instance, to understanding elite agency in terms of value creation and appropriation business models functioning as the transmission mechanism between micro-level activities and macro-level social outcomes. The relationships proposed between diverse conceptual elements are formalized in the propositions and conjectures—such as connecting intra-elite contests with value creation and risk origination (or extractive value and risk transfers)—and add up to an internally consistent whole. The epistemology of this inquiry is recognizable in the project overview. Figure P.1 depicts how conceptual elements from multiple disciplines are integrated into an overarching system with a particular language and narrative that seeks operationalization through sustainable value creation (SVC) measurements to facilitate tangible outputs in research and transformational action in practice.

This work on elite agency implicitly and explicitly responds to five of Whetten's seven questions in "What Constitutes a Theoretical Contribution?" (1989): (a) What's new? (b) So what? (c) Why so? (f) Why now? (g) Who cares?² Regarding the latter, situating intra-elite contests at the origin of institutional change might re-energize debates on the impact of political economy arrangements and incentives for society at large. The unconventional and systematic attempt at explaining the interrelationships between variables in economics, management, and political science through the lens of elite agency results in theory that provides latitude for human agency in its applied aims. This motivates the incipient and growing international research and practitioner community engaged in the construction, interpretation, and statistical validation of a comparative measurement of elite quality (Casas-Klett, Cozzi, Diebold, & Zeller, 2020; Diebold, 2022) and micro-level sustainable value creation measurements (Casas-Klett & Nerlinger, 2023), while since its 2020 pilot, five annual *Elite Quality Index* reports have been published (Casas-Klett & Cozzi, 2021, 2022, 2023, 2024, 2025). A key aim of the sustainable value creation measurements proposed in this work is to enrich established formal models (of economic forecasting, equity valuations or credit ratings) in an effort to enhance their realism and utility. In the process, the EQx (which aggregates elite quality at the elite system meso-level) and the VCx (which operationalizes value creation and risk origination and extractive transfers at the firm micro-level) will either validate or refute the elements, logic, and language of the ETED. Where successful, the value creation locus of this work will inform the evolving conversations on sustainability and environmental, social, and governance (ESG) concerns.

The wide remit and ambition of this work expose it to criticism. So does its reliance on intuition and imagination, two of McGilchrist's "four main pathways to the truth" (2019, p. xxvi). Another challenge is its likeness to the "tradition of the *essai*" (May, 2017, p. 415) with "numerous digressions" and assertions that are left to further research and empirical validation. The inquiry itself is also bereft of specific method-

² The additional two questions: (d) "Well done?" (e) "Done well?" can only be addressed by the reader.

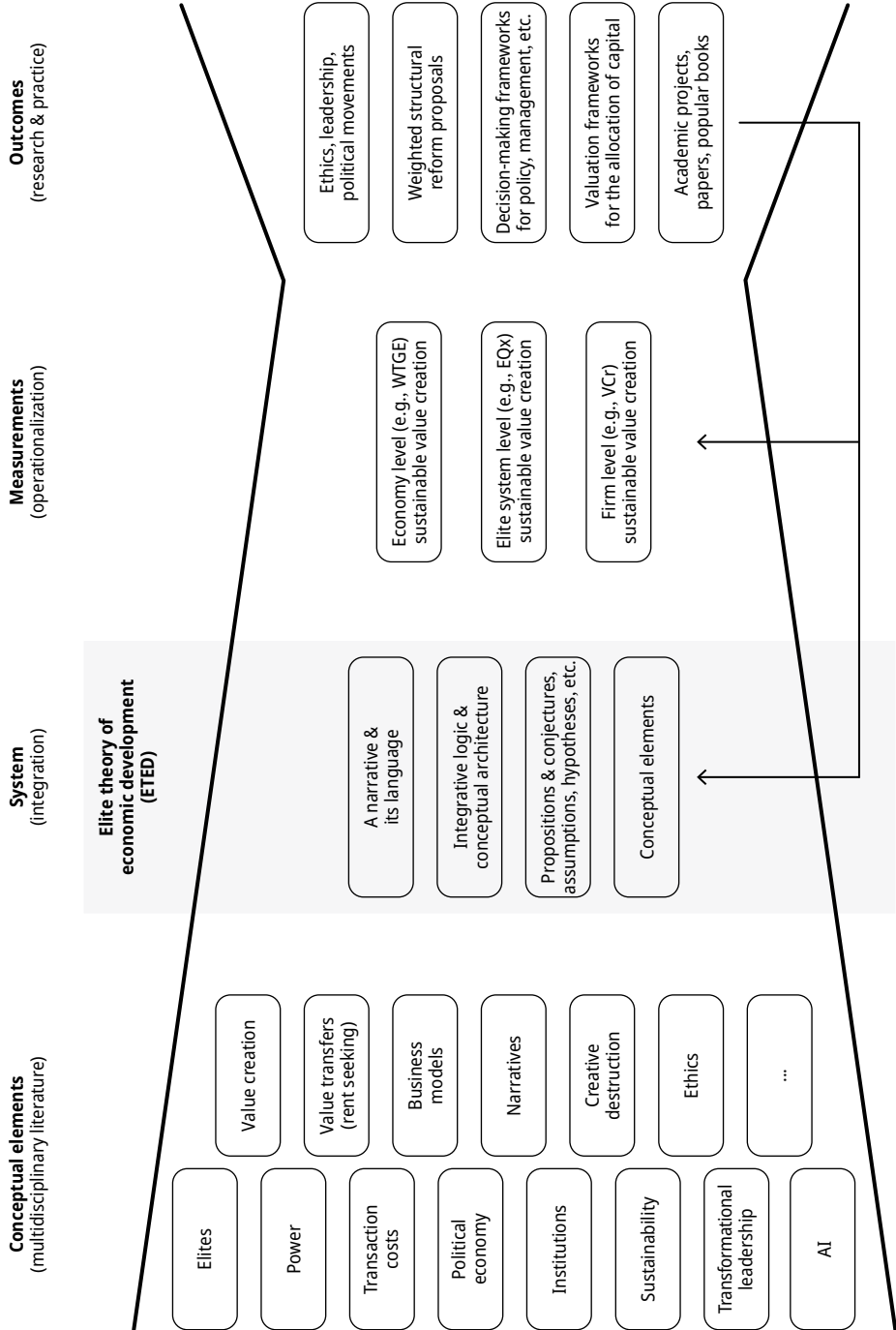


Figure P.1: The elite theory of economic development: Project overview.

ologies other than “disciplined imagination” (Weick, 1989), in the pursuit of conceptual integration, and so the proposed theoretical framework is perplexing in its scope. Moreover, the title of this book starts with the preposition “towards”, indicating that the study merely aims to start a dialogue on economic development centered on elite agency, albeit one with an unambiguous normative destination—a political economy that minimizes value extraction. The final proviso is the association with Isaiah Berlin’s figurative application of Archilochus’ metaphor of the ‘fox’ to a type of thinkers:

those who pursue many ends, often unrelated and even contradictory, connected, if at all, only in some de facto way, for some psychological or physiological cause, related to no moral or aesthetic principle. These last lead lives, perform acts and entertain ideas that are centrifugal rather than centripetal; their thought is scattered or diffused, moving on many levels, seizing upon the essence of a vast variety of experiences and objects for what they are in themselves, without, consciously or unconsciously, seeking to fit them into, or exclude them from, any one unchanging, all-embracing, sometimes self-contradictory and incomplete, at times fanatical, unitary inner vision. (Berlin, 2013, p. 2)

The problem that the ‘centrifugal’ approach of this work aims to contribute to is that of economic growth and human development. There is, though, a ‘unitary vision’: the sustainable value creation of elite agency. To the degree that the elite theory advances toward the relevant ‘truth’ in human relationships—value transfers and their optima—it functions as a ‘theory of everything’ in society.

The title of this book could have been an ‘elite theory’, an ‘elite theory of development’ or, more specifically, an ‘elite business model theory of economic and social development’. The longer title is more precise, while the shorter ones are more appealing to those disinclined to put the spotlight on micro-level business phenomena to decipher macro-level economic and social advancement. Given the focus on economic development and the primacy of economic concepts (e.g., value, institutions or rent seeking), this inquiry settles nonetheless on the ‘elite theory of economic development’ (ETED). Ultimately, this is a work of transformational leadership and not a treatise on economics: the foundation of its vision is the ‘inextinguishable value creation option of elites’ to engage in first-order productive and sustainable value creation activities, understood in terms of value appropriation.