

# **An Inquiry into Elite Value Creation and Extraction: Conceptual Development for Political Economy Analysis and Measurement**

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## Abstract

This paper attempts to develop a logic for elite agency and its proximate impact on inclusive and extractive institutions that eventually affect economic growth and human development over mid- to long-term horizons. First, the ‘elite populist fallacy’ and the ‘elite denial fallacy’ are challenged. Then elites are defined as leaders and decision-makers constituting an interest group narrower than the group with whom it has a direct or indirect exchange relationship, and which has successfully leveraged its lower transaction costs and higher trust levels for the strongest coordination capacity over a society’s key resources. ‘Elite agency’ secures from institutions - through political economy non-market processes - sought-after licenses affording market advantages when operating business models on the continuum ranging from value creation to value extraction. The single positions of elites at the business model value continuum aggregates at the meso-level ‘national elite system’, a generic structure constituted by all the elite coalitions in a given political economy, one that features its own distinct processes and is in itself an important element of the macro-level economy. Elite quality is then a macro-level characteristic of the economy as it describes the value creation aggregate of all elite business models. As an indicator it has a purported relationship with a host of macro variables and hence might be suitable for inclusion in forecasting models. The elite construct and its associated and structural elements benefit from diverse ideas, theories and perspectives grounded in a multi-disciplinary source set including political economy analysis, new institutional theory, rent-seeking theory, narrative economics, collective action theory or elite concepts drawn from political science, sociology and economics. The conceptual development of elite quality is meant to be operationalized, primary as a global index having a multi-level architecture incorporating measurements like power, political value or creative destruction. The index is to be methodologically tested and statistically validated in a [parallel paper](#). Overall the work on elite quality is a call for an international research project to develop a global index that functions as an analytical toolset with practical applications for policy makers across the globe. Its results and their interpretations will be elements of narratives with the potential to enrich the public discourse towards a more inclusive state of the world. The first phase of the research stream is a robust pilot index covering 32 countries on the basis of a diverse data set incorporating over 70 indicators. A conceptual and methodological review process will be followed by the release of a report detailing elite quality country scores and a global rank for a majority of the world’s economies.

**Keywords:** political economy, index, elite quality, intra-elite rivalry, power, institutions, value creation, rent seeking, crony capitalism, global ranking, international business

**JEL codes:** D72, F50, P16, P48

Preliminary, abstract and table of contents only. Text is being revised in conjunction with the release of the first [elite quality index](#) (EQx2020) in September of 2020. Full document available on October 1<sup>st</sup>, 2020.

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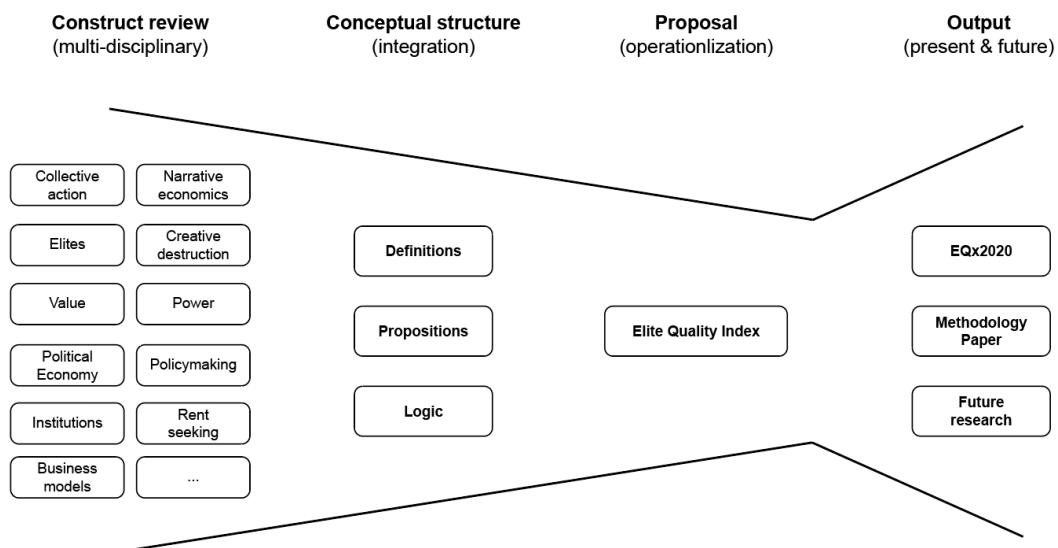
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## Introductory note: A conceptual paper’s process and purpose

This paper documents an exploratory inquiry into elites. First, a broad and multidisciplinary literature review is presented, attempting to do justice to the multidimensionality of the topic of elites. Secondly, a selection of this literature is used and operationalized for the purpose of this paper: to arrive at a conceptual platform from which a new tool in the arsenal of economic analysis emerges, an index measuring ‘elite quality’. The third section thus suggests an integrated framework for such a new tool.

A conceptual paper’s aim is “integration and proposing new relationships among constructs” specifically by summarizing research, and to “provide an integration of literatures, offer an integrated framework, provide value added, and highlight directions for future inquiry.” (Gilson & Goldberg, 2015: 127). Hence, this inquiry commences by acknowledging constructs found in many diverse disciplines from economics, political science, sociology, philosophy, or management science. The broad review of those ideas includes a process of accepting and rejecting theoretical perspectives, assumption and propositions. Definitions are built and a logical structure on a political economy notion of elites is suggested. Concepts such ‘elite agency’ and ‘elite quality’ are developed as devices that integrate the selected theoretical positions and assumptions. The selection of assumptions and conceptual development is discretionary and instinctive as much as it is designed to provide a good fit with the final step of the process, the operationalization of knowledge, the first proposal being the elite quality index.



**Figure A: This conceptual paper as a proposal**

By implicitly and explicitly supplying responses to five of Whetten’s (1989) seven questions - (a) What’s new? (b) So what? (c) Why so? (f) Why now? and (g) Who cares?<sup>1</sup> - this paper helps to kick-start a larger research stream with a theoretical grounding. It is the step prior to the work that rigorously constructs and statistically validates the index (the ‘methodology paper’), as well as the first elite quality report (for the year 2020, covering 32 countries). Both documents are available at [EQx2020](#) and [Measuring Elite Quality](#) respectively.

At this stage, this conceptual paper has still a living, interactive quality. That is, in conjunction with the methodology paper and the EQx2020 report, inputs and feedback are received in open exchange. This paper is to be evolved and this version will be the first public one.

<sup>1</sup> The questions ‘(d) Well done?’ and ‘(e) Done well?’ are left to the reader to answer.

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