

## **Elites and Economic Outcomes**

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Elites are a necessary part of economic activity. It therefore matters how elites are recruited and how they act. History is full of examples of elites that have acted well and also badly. Modern research has examined the training of elites, recruitment schemes and incentives for elites to discover how they can be used to promote, rather than impede, economic growth. The literature has also emphasized the effect of elite interconnection and elite recruitment on social mobility; it has shown that the standardization of elite education over the years may lead to uniformity and the creation of a transnational oligarchy.

A ruling elite (from the Latin *eligere*, 'to elect') is a small, dominant group that enjoys the power of decision in the various sectors of the economic and social organization of a state. It includes the bureaucrats and civil servants who rule the macro-environment; the political elite that governs and operates the executive, legislative and judicial structures; and the business elite. Non-ruling elites include the members of the media, academia and the intelligentsia.

Even in a democratic regime in which the power is meant to reside in the *demos* ('the people'), power is really concentrated in the hands of a few. All political organizations, even democracies, tend towards domination by an oligarchy, which Mills (1956) called the *power elite*. This is the *iron law of oligarchy* as stated by Michels (1915). This stratification of society based on the accumulation of decision-making power therefore differs from the familiar stratification based on income and economic means, or on ownership of the factors of production as emphasized by Marx.

The effects of elite actions on the economy operate through several channels: economic growth and development; social mobility; inequality; and the political system, which in turn affects the economy. The characteristics that affect these economic realms are (a) the extent of the intertwining and inter-connections of elites; and (b) the stability and recruitment of the elite.

### **Elites' interconnections**

The ruling elite can display unity and collusion, acting as a monolithic group, or it can be fragmented and characterized by dissociation and diversification of power, a 'polyarchy' that permits competition among its members.

The elite in non-democratic polities displays unity, has unlimited political and economic power, and typically acts on behalf of its own interests. But democracy should a priori impose some control on the power of the ruling elite. Indeed, Schumpeter (1954) claimed that the democratic process permits ‘free competition among would-be leaders for the vote of the electorate’ and that the masses can choose between various elites. In contrast, classical elite theorists such as Mosca (1939), Pareto (1935), Michels and Mills emphasized that there can be collusion even in democracies. Numerous elites may not be mutually competitive and may not control and balance each other; instead, they may be intertwined as a unanimous, cohesive power elite.

### **Economic consequences of the extent of interconnection**

#### *Inequality*

The elite’s plurality and competition ensures its responsiveness to the demands of the public, while a consensual elite might use its power for its own interests. Etzioni-Halevi (1997) claims that a unified elite does not use its power to reduce inequality and promote the development of a more egalitarian society, due to common recruitment and common interests. It is the plurality and differentiation of the members of the elite that enables them to countervail each others’ power and to increase their responsiveness to the will of public. In consequence, elite homogeneity might actually increase the gap between the elite and the masses.

When the political elite controls wealth and the main factors of production, then elite and class stratifications coincide, and consequently power and wealth are in the hands of the same happy few. Engerman and Sokoloff (1997) showed that members of the elite who have power and wealth establish institutions that serve their own interests and exclude the masses from benefits. In consequence, inequality persists through institutional development in the elite’s own favour. Justman and Gradstein (1999) added that elite unity leads to greater inequality through regressive redistribution policy. A power elite that controls wealth may refrain from investment in human capital of the majority because education would increase the latter’s political voice and weaken the elite’s hold on power (Easterly, 2001); yet in some cases, the elite deliberately decides to forfeit power by investing in human capital as a consequence of a cost–benefit analysis (Bourguignon and Verdier, 2000).

The extent of elite unity can be endogenously determined (Sokoloff and Engerman, 2000), and elite unity can also be affected by revolutions, wars and economic growth. Justman and Gradstein (1999) argue that economic growth dilutes the power of the elite by broadening political participation and reducing inequality.

#### *Economic growth*

A strong interconnection among elites has the consequence that all sectors of the economy are ruled by a group that thinks in a monolithic way. Two lines of thoughts

have related a monolithic group to economic growth. The first one underlines that a monolithic group leads to the stagnation of ideas and attitudes, which in turn may prevent the adoption of major technological breakthroughs (Bourdieu, 1977). The lack of competition in a monolithic powerful group also generates corruption, with harmful consequences for growth.

The second line of thought argues that wealthy elites with enough political power to block changes will not accept adopting institutions that would enhance growth, since they might hurt them. Acemoglu, Johnson and Robinson (2001) developed this line of thought in relation to colonial impacts, showing that, wherever colonial governments were composed of few elite members, economic progress was reduced.

Following the same line of reasoning, Acemoglu and Robinson (2000) and Gradstein (2007) stressed that elite plurality, in which the political and economic elites are separate, explains the adoption of political franchise and industrialization in western Europe; while 19th-century eastern Europe, where elite unity was strong, did not adopt growth-enhancing institutions, since its elites held on to their wealth and power.

Paradoxically, in countries in which the elite was united and consensual, with common aims, the transition to capitalist production in the 1990s took place without violence, as in Poland and the Czech Republic. In contrast, wherever the elite was divided and fragmented, there were conflicts, especially on the ethno-nationalist level, as in Yugoslavia and Romania (Pakulski, 1999).

### **Recruitment and training of elites**

Plato claimed that government should be in the hands of the most able members of society, that is, the *aristocracy* (Greek for 'rule by the best'), a term that became pejorative and was later changed to *meritocracy* (coined by Young, 1958). Pareto argued that a stable economic system needs a *circulation of elites*, so that the most capable and talented are in the governing class. He stressed that the quality of the ruling class can be maintained only if social mobility is allowed, so that the non-elite has the possibility of entering the elite: 'History is a cemetery of aristocracies' (Pareto, 1935). His theory may be viewed as a sort of social Darwinism in which mobility is needed, just as evolution relied upon competition and selection.

For millennia, recruitment of the Western elite was based on social inheritance and was carried out via heredity, nepotism and violence. Hereditary monarchy was considered the most legitimate means of recruitment for rulers, and the upper elite was made up of wealthy large landowners, an *état de fait* considered normal in agrarian societies. Nevertheless, there were some channels of entrance into the elite, such as military prowess and exploits or involvement in government finance (Brezis and Crouzet, 2004).

In democracies, the political elite came to be recruited mainly by election. Yet for a long time, the franchise was not for all. Big landowners and members of the upper

middle class were the overwhelming majority in parliaments and cabinets, even though some prominent business people entered the political elite. Only in the late 19th century did members of the lower middle class and working class enter the political elite.

From the 19th century onwards, the circulation of the business elite took two differing yet concurrent paths. The first was that economic growth led to spurts of new firms and the decline of others, allowing a new business elite to emerge (Schumpeter, 1961). The second path was the rise of the professions, with competitive and meritocratic exams that led to circulation of elites (Perkin, 1978). After the Second World War, the elite was mainly recruited through education into elite universities to which admission started to be conferred following success at meritocratic exams.

### **Economic consequences of the recruitment of elites**

#### *Social mobility in the economy*

Prior to recruitment through meritocracy, social mobility, and in particular the potential for non-elite members to enter the elite, was low. Temin (1999a; 1999b) showed that today, as in the 1900s, and despite meritocracy, the American economic elite is composed almost entirely of white Protestant males who have been educated for the most part in Ivy League colleges. Although in 1900 the political elite was quite similar to the business elite, today the former is more diversified; the political elite has changed in its recruitment, while the economic elite has not. In other words, minorities have not penetrated the economic elite in the United States (see also Friedman and Tedlow, 2003, which summarizes studies on US elite mobility, and Foreman-Peck and Smith, 2004 on British elites).

Recruitment to a university through meritocratic entrance exams, does not, indeed, lead to enrolment from all classes of society according to distribution or ability, nor does it necessarily lead to the admission of the most talented. Recruitment by entrance exam still encompasses a bias in favour of elite candidates because this type of exam requires a pattern of aptitude and thinking that favours candidates from an elite background. All elite positions may be open to all applicants with the right qualifications, but they are more accessible to those with specific social, cultural and symbolic capital (Arrow, Bowles and Durlauf, 2000). Thus the power elite maintains its status and power by a *strategy of distinction*, or a cultural bias that is necessary for accessing it (Bourdieu, 1977). A small difference in culture and education leads to narrow recruitment, and in turn to class-based stratification in the recruitment of the elite, despite meritocratic selection for universities (Brezis and Crouzet, 2006).

The relationship between mobility and the political system, as emphasized by Pareto, has been analysed by sociologists. For instance, Lengyel (1999) showed that circulation in the elite occurs at times of political upheavals and revolutions: the existing elite is eliminated and replaced by a new one. The first-generation members of

the elite following a political change have neither specific training and education nor specific origin; they are the trailblazers, the entrepreneurs who seized power on the strength of their competence. In the next generation, the elite becomes narrowly recruited from the best educated, and members are selected mostly by training and education. The elite returns to an occupational specialization, similar to the meritocratic profession criterion of earlier industrialization (Perkin, 1978).

### *Economic growth*

A crucial element of economic growth is that the recruited elite be of the highest quality. Countries in which elites are recruited in a non-meritocratic way face the problem of the quality of their elites. However, the prevalence of meritocratic recruitment does not necessarily lead to the selection of the best ruling elites. Brezis and Crouzet (2006) argue that, when a country faces only mild technological and structural changes, the narrow recruitment, due to meritocracy, optimally fulfils its purpose, since the cultural bias of the elites is an advantage in the given type of technology. However, at times of major changes in technology, elites recruited this way are not the best for adopting new technologies.

Moreover, the homogeneity of the recruitment of elites through similar curricula leads to convergence of views; this, in turn, leads to a monolithic elite, which, as we have claimed above, may have negative consequences for economic growth.

### **Conclusion**

In this short article, we have summarized the modern research that has examined recruitment schemes and incentives for elites to discover how they can be used to promote, rather than impede, economic growth. There is also an entire economic history literature that has enriched us with a wealth of knowledge on the business elite. The main works in this literature are by Cassis (1997), Crouzet (1999) and Lachmann (2000).

The literature cited herein seems to show that the structure of this small group called the elite has numerous effects on the world economy. In the opposite direction, globalization will also affect the elite, as we are now facing a globalization of education of the elite.

In its first wave, globalization of education will probably create a new collection of elites and elicit some changes, yet the unity and uniformity of the elite will be even greater, not only at the national level but also at the global level. National elites will be replaced by a worldwide elite, along with uniformity in culture and education. We will face an international technocratic elite with its own norms, ethos, and identity, as well as its private clubs like the Davos World Economic Forum – a transnational oligarchy.

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