in Brezis, E.S. and P. Temin. 1999. *Elites, Minorities and Economic Growth*, North-Holland, Elsevier.

CHAPTER 1

ELITES, MINORITIES AND ECONOMIC GROWTH IN AN INTERDISCIPLINARY PERSPECTIVE

Elise S. Brezis
Bar-Ilan University
and
Peter Temin
Massachusetts Institute of Technology

1. Introduction

The process of economic growth is a phenomenon that in essence encompasses not only economics but the social sphere as a whole. Social and economic changes that take place in society are both varied and intertwined -- like Joseph’s coat of many colors -- but contemporary social science has moved in the direction of analyzing each component of change -- each color in Joseph’s coat -- separately. This division of labor has been highly productive. Both economics and sociology have prospered and contributed greatly to our knowledge but the interaction between the phenomena analyzed by these two groups of scholars has been neglected. This book tries to fill in part of this lacuna, to weave a complex fabric of change.

There were attempts by sociologists, already in the 1960s, to relate social structure to economic development and to examine the consequences of industrialization and development on social structure and mobility (see Smelser and Lipset, 1966). However, economic theory has long avoided the interconnection of social structures and economics.[1] The extent of research in both fields during the last decade permits us, in the present, to initiate a merge of these analyses. The task is not easy; while the disciplines sometimes confront similar questions, they approach them from highly different directions, and it is an open question as to which of the approaches will be most successful.

The roles of elites and minorities in economic growth were the specific areas that we considered appropriate to initiate this experience. The existence of a relationship between minorities and growth as well as elites and growth seems evident. Economic growth changes society, altering the composition of wealth, the sources of political power, the residence of people, and the identity of social groups. In all societies there are leaders whom we refer to as elites. (There are many ways of defining an elite, but all societies have elites; their existence is not in question.) Minorities also are a component of most societies. They are more heterogeneous than elites, but typically are defined ethnically, politically or economically. Minorities can be excluded from economic growth, they can lead economic growth, or they can occupy positions in between. The analysis of the exact relationship between these different elements is the subject of this book.

The book initiates this interdisciplinary approach with a description and an analysis of the role of elites and minorities in economic growth. The chapters cover many countries, from the Old World to the New, from the location of the original Industrial Revolution in Britain to the sites of rapid change today, such as the Middle East. They range in time over the 200 years since the initial Industrial Revolution, with an emphasis on changes in the past half-century. They individually are interesting for the light that each sheds on some specific time and place. They are even more interesting collectively as the beginning of an interdisciplinary conversation on the interaction between social and economic changes occurring during economic growth.

This introduction presents a synthesis of the chapters that follow: they are described thematically (and not according to numerical order) because they often address more than one aspect of the relationship between elites, minorities and economic growth. We discuss elites first, distinguishing static and dynamic analysis. Then we turn to minorities, considering their culture, kinship relations and minority status.

2. Elites

Definitions of elites, either the ruling elites or the non-ruling ones, are numerous and various; but they all center upon the idea of a group regarded as socially superior. Ruling elites are composed of those few with the power of decision in various sectors of the polity or economy. These ruling elites include the economic elite (the top entrepreneurs and CEOs as well as the bureaucrats and civil servants who rule the macro-environment) and the political elite that governs and operates the executive, legislative and judicial structures. Non-ruling elites comprise the members of media, academia and intelligentsia.

The literature on elites originates with Pareto, an outstanding economist and sociologist. In his economic research (who initiated a complete analysis of the meaning of utility and its maximization) Pareto emphasized that the welfare of society as a whole cannot be the sum of individual utilities because of the *heterogeneity* of its people. This led him to analyze the elements determining the behavior of society, and to define the notion of maximum utility for a heterogeneous group, which today is called a “Pareto optimum.”

Heterogeneity also played a role in Pareto’s sociological work; more particularly, the difference between the mass of individuals and the small number of people that dominate them, that is, the privileged group. He elaborated a theory of the elite and its effects on society. Pareto’s work was a precursor of this subject with two main themes of analysis (although Mosca, a political scientist and a contemporary, also developed an elite theory). The first theme, which we term the static structure, deals with a description of the role and recruitment of elites. The second, which we define as dynamic analysis, investigates changes of the rulers and elites and the consequences of such changes for society. As Pareto (1935, §2053) wrote: “History is a cemetery of aristocracies.”

2.1 Static analysis

The literature on the role of elites has centered around three topics: the elite structure, the inter-relation between the elite and society, and the interconnection within elites. The elite structure examines primarily the nature of the elite’s social background, their recruitment and promotion pattern, as well as geographic or ethnic origin. (Recruitment analysis investigates the openness of selection and the channels whereby such choice takes place.) Some of the sociologists also explore the elite's attitude formation and behavior (designated as "positional and decision-making"). The literature on the inter-relation between the elite and society has mainly focused on the economic and social consequences of inequality and the stratification of the society. The third topic is the integration of elites regarding their world view, their social ties and their level of concentration of power (if the power is diffused or centralized, and how much power is limited "from below").[2] These topics delineate a typology of elite formation which permits us to analyze the consequences of elite behavior on society.

The first classical works examined the characteristics of the elites within a democracy. They gave rise to two opposite interpretations of Western societies. The first view, starting with the theory of Pareto (1909, 1935), Mosca (1939) and Michels (1959), emphasized that despite the democratic character of a given regime -- where power is meant to reside in the *demos* (the people) -- power is really concentrated in the hands of a few, who rule without much regard for the wishes of the many. All political organization tends toward domination by a few, the oligarchy, which Mills (1956) called the "power elite." This so called "elitist view," of which Mills is probably the best known proponent, made a strong imprint in sociology and influenced among others, work by Hunter (1959) and Domhoff (1970) for the US, and Aaronovitch (1961) and Miliband (1969) for England.

In contrast to this pessimistic view of democracy, the "pluralist-democratic" position included sociologists such as Dahl (1957, 1959), Aron (1960) and Parsons (1960, 1963).[3] They argued that in Western democracy, the existence of groups within the power structure is not an empty fiction. Western social order is characterized by a dissociation and diversification of power, a "polyarchy," in contrast to the social order in the communist countries (Soviet Union and China before the reforms), where all such groups are unified in the single party system.[4] This plurality of elites ensures competition, and that they do not form a "power elite" separated form the "mass society." These two lines of interpretation of the power structure of the elites prevail in most of the static analysis.

The elite structure is a subject of investigation undertaken mainly by sociologists, but also by economic historians who have contributed various lines of research. While sociologists differentiate between the elite (based on status and influence) and class (based on income and economic means), economists and economic historians are less scrupulous with these definitions, and refer without distinction to the business elite or entrepreneur. They showed that already in the Athenian period, the power of decision was in the hands of a very "happy few." In Genoa in the seventeenth century and in London in the eighteenth century, the elite consisted of only 700 and of 200 people respectively (see Braudel, 1979). A large literature of economic history has dealt with the role and the social origins of the first industrialists and entrepreneurs for the period of the early industrialization. For instance, Crouzet (1985) and Mathias (1983) pointed out that the majority of industrialists came from the "middle class" and that they were businessmen, not inventors.

Economic historians have also analyzed to what extent the role of the entrepreneur and their attitudes have contributed to economic growth. The Center for Research in Entrepreneurial History was established at Harvard in the late 1940s. The starting point for most researchers at the Center was Joseph Schumpeter's concept of entrepreneurship as a creative act that, in discontinuous fashion, expanded the economy's production possibility frontier (Schumpeter, 1934). Schumpeter was unable to explain why some societies at some times produce disproportionate numbers of entrepreneurs; neoclassical price theory also appeared to lack answers to such questions. Scholars at the Center turned instead to sociological (particularly Parsonian) models of human behavior in order to understand why some cultures seem to offer particularly fertile ground for entrepreneurial innovation. Parsons' approach to the study of society was essentially an equilibrium one, and there was nothing inherently incompatible between the broad syntheses of business history developed by these scholars and the work of economic historians trained in economics. In recent years, prominent economists such as Oliver Williamson and David Teece have found much to admire in Chandler's model of the evolution of business organizations (Williamson, 1981; Teece, 1993).

The scholars at the Center were vigorously opposed by Alexander Gerschenkron, also of Harvard, who stressed the role of natural resource endowments, income levels, and the size of the domestic market in economic development (Abramovitz and David, 1996, pp. 50-7). During the early 1950s, inquiries into the causes of underdevelopment in large parts of the world were a source of heated debates about the role of entrepreneurship in industrialization; circumstances at the time made the differences seem more important than they actually were.

This "elite structure" is the subject of research of some of the chapters in this book. In chapter 2, Peter Temin compares the US economic and political elites in the early years of the twentieth century and today. He shows that the economic elite is composed almost completely of white Protestant males who have, for the most part, been educated in Ivy League colleges. Although in 1900 the political elite was quite similar to the business elite, today it 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 US. Elise Brezis and Francois Crouzet (chapter 17) found a similar conservative pattern regarding the French economic elite, although this is not a universal phenomenon; Eliezer Ayal shows in chapter 12 that minorities are prominent in the economic elites of Asia.

The second main theme of the static analysis concerns the inequality in society between the elites and the balance of the population, a theme that has been studied by sociologists as well as by economists. There is a wide sociological literature on this subject that, for the most part, analyzes the interactions between capitalism and democracy. Indeed, some sociologists see a contradiction between capitalism and the democratic values that include an economically egalitarian dream (see Bowles and Gintis, 1986). For others, a capitalist structure fosters democracy (see Lipset, 1959, p. 96). These theories have followed a further controversy on stratification in society (see Davis and Moore, 1945). Eva Etzioni-Halevy relates to this issue, in chapter 5, by examining how class and elite relations in the Israeli democracy interact with egalitarian views. She argues that the Israeli elitist society (elitist in its recruitment, its role and its origin) leads to an increase in inequality.

Economics (more particularly the New Growth Theory) has also been exploring this subject, especially the effect of inequality and stratification of society on growth. Most work shows that inequality hampers growth (Perotti (1996) provides a good survey on this subject, and Forbes (1997) presents an opposing opinion). One consideration is that in democracy (where the median voter is the decisive voter), more equality will promote growth since it decreases government expenditures and taxation. Another is that inequality leads to sociopolitical instability, which can reduce investment in both physical and human capital, in turn decreasing growth. In contrast to these views, research analyzing the effect of growth on inequality has hypothesized a Kuznets curve, in which inequality increases at the beginning of development and then decreases. The Kuznets curve has given rise to much debate regarding its theoretical as well as its empirical side.

Growth theory has adopted some of the sociological analysis relating class structure and democracy to inequality and growth where the effects of democracy on growth are ambivalent (see Barro, 1996a; and Perotti, 1996). Until now this theory has avoided confronting the sociological view that, in democracies, elite analysis is as important as class analysis. It is striking that the new theories based on neo-classical premises have adopted the Marxian thesis, i.e., that class differentiation is the major axis around which a society is ordered, and that Western countries exhibit a significant class structure. Indeed, growth theory has been interested only in the effect of inequality on the difference between classes in the economy. Sociologists have emphasized another description of society, the separation between the elite and the mass -- a stratification that has been completely ignored by economists. In this book a first attempt is made at dealing with this disjunction.

In chapter 15, Moshe Justman and Mark Gradstein analyze the effect of growth on the elite, democracy, inequality and growth. In their model, the concentration of the political elite or its opposite, democratization, is a consequence of economic development. Growth leads to a reduction in the power of the elite. When output and the level of development are low, participation in voting will be limited to a few rich people; the ruling elite is part of a small group that exploits its political power to appropriate output. In the early phase of development a rise in income is accompanied by increased inequality. When growth starts to affect a greater proportion of society, participation becomes broader and the political elite is recruited from a wider social spectrum. Government policies acquire a progressive bias leading to a decline in inequality. Their model explains why inequality increased when growth was low in the nineteenth century, while a higher growth rate caused a reduction in inequality in the twentieth century. In other words, it explains how the Kuznets curve can originate.

The third characteristic of the structure of elites is the extent of interconnection within them. This question has mainly been the concern of sociologists who have analyzed its consequence for political structure, and more specifically for political stability. The elite can display unity and be a monolithic group, or it can be fragmented revealing elite differentiation and pluralization. On one hand, as some sociological theories show, political stability can exist only if the elite is pluralistic since conflict within the elite constrains its grip on power and therefore leads to a stable democracy. Schumpeter (1954, p. 271) claimed that the democratic method is the one that permits “free competition among would-be leaders for the vote of the electorate.” On the other hand, a lack of elite unity would develop in conflict resulting in a threat to political stability. Ideologically unified elites, i.e., “consensual elites,” give rise to stable autocratic regimes (Higley and Burton, 1989). It is quite striking that Schumpeter who posited that the presence of monopolies is primordial for research and development, and growth adapted this structure to the relationship between the elite, democracy, and competition.

Jan Pakulski applies this theory to Eastern European countries in chapter 6 where he makes a link between the structure of elites, the political regime and the strategies adopted for ethnic conflicts. More specifically, he analyzes the particular elite characteristic that explains a “velvet revolution” of the type that occurred in some Eastern European countries during the “changing of the guard,” and argues that when the elite is united with common aims and is consensual, the political regime is stable. The “passing of the baton” will be non-violent and will resolve ethno-national conflict peacefully, as in Poland and the Czech Republic. In contrast when elites are divided and fragmented, there are conflicts, especially on the ethno-nationalistic level, as in Yugoslavia and Romania.

This contrast between elite unity and pluralism has been expanded by Baruch Kimmerling (chapter 4) to also include the non-ruling elite (intellectual and social influences) and, more widely, civil society. He first investigates the two-sided relationship between the state and the elite, emphasizing that the state structure needs non-ruling elites since they give legitimacy to the state. The state also creates elites that, by definition, hold power in the state and who, in turn, become the dominant group by being at the top.

Kimmerling then turns to the subject of elite pluralism by analyzing the relationship between the elite of the civil society with the ruling elite of the state. Instead of relating the taxonomy of unity/pluralization to political changes, as done by Pakulski, this chapter applies it to economic growth with application to the Middle East. In countries where the ruling elite is unique, the existence of an independent civil society encourages competition. As in the theory of firms where competition leads to innovation, competition between elites is necessary for growth. Hence, if only one elite exists and is involved with state matters, it will not propose beneficial reforms for the country but could endanger its power and status. Development would mean a loss of power, which the elite prefers to keep, even at the price of continual poverty for the society.

Turning to the elites in the Middle East, Kimmerling argues that since most of these economies are state-owned, the ruling elite (economic and political) is monolithic with no competition. Allowing freedom to minorities would promote the creation of a civil society (consisting mainly of minorities) that would generate competition between elites and lead to reforms. In addition, the state uses the threat of the evil outside world, Israel included, to limit freedom and to impede the formation of an independent and intellectual elite. It is a method of maintaining the monopoly by hindering the formation of other elites, impeding economic development in the Middle East.

Etzioni-Halevi (chapter 5) analyzes the interconnection between the different elites in Israel. She shows that they are “elitist” in their recruitment, advancement and interconnection among themselves. Her chapter claims that this elitism can explain the growing inequality in Israel, since the elites interconnect and lose their relation with the disadvantaged. They do not use their power to reduce inequality and promote the development of a more egalitarian society.

Chapter 16 by Adam Klug and Carmel Nadav presents an economic historical analysis that explores the interconnection within elites and between elites and working class leadership. They explore the composition of the political elite in early British industrialization and focus on Oldham, one of the classic locations of the Industrial Revolution, and note that the political and economic elites of this rapidly developing town had a exceedingly complex relationship. A radical political elite opposed the economic elite during Oldham’s most rapid growth period. Only after the first flush of industrial growth did the economic and political elites in Oldham develop a more comfortable relationship, although divisions among the political elites continued in less hostile forms.

2.2 Dynamic analysis

The second major issue in the literature on elites regards their dynamics, which for economists term “mobility,” and sociologists, “elite transformation.” The idea originated with Pareto, who called it “the circulation of elites.” Economic historians examine the movement of the successive generations of business elite between social classes as well as the socioeconomic characteristics of the entrepreneur. Economists analyze the consequence of mobility on the economy (more particularly on economic growth), and sociologists study the influence of elite transformation on the stability of the political system.[5]

Francois Crouzet (chapter 3) investigates departure from the business elite. Instead of asking how many join the business elite, as Temin implicitly did, he concentrates on the opposite trend. His chapter analyzes business dynasties (at least three generations of the same family in a large firm) in France and England. In the nineteenth century and the beginning of the twentieth century, both countries had business dynasties (France had more); nowadays almost none exist in both countries. Large companies do not remain long in family hands since two conditions have to be met: that the firm stays in business and that the family has heirs capable of managing it. The main factors affecting the continuation of a business are the business cycle, mergers, the structure of the sector (the more monopolized, the better the chance a firm will last), technological changes in the sector, the family's education, and its minority affiliation. Crouzet's conclusion is that dynasties do not last; the business elite does not belong to dynasties -- it is composed of new entrants.

Crouzet's and Temin's research appear contradictory -- one shows mobility; the other, immobility -- but they are compatible. There is micro-mobility (among people) as shown by Crouzet, but not macro-mobility as shown by Temin; the elite comes from the same class, from the same socioeconomic background. Comparing the US to Europe and, more particularly France, macro-mobility is quite different. Even if in the US, as Temin points out, they have been educated in Ivy League colleges, there are approximately 10,000 graduates per year compared to a cohort of 100 per year in France. This makes a difference in mobility into the economic elite.

The relationship between mobility and the political system is an issue of interests to sociologists. Gyorgy Lengyel, in chapter 7, shows that in Hungary, the first generation of elites after a political change has no specialized education. In the next generation, the elite becomes narrowly recruited from the best educated, as is the case in other countries. Therefore, the circulation of elites occurs only at times of political upheavals and revolutions; the existing elites are eliminated and replaced by new ones.

Lengyel's chapter begins by analyzing the characteristics of economic elites i.e., their social origins, education and recruitment concatenating all these into one parameter, the professionalization of elites. This paradigm has two distinct meanings. On the one hand, it can merely mean that having the status of elites per se requires no specific education. Having the "profession" of elite is the equivalent of having the power and competence for ruling but no specific characteristics are needed. On the other hand, the professionalization of elites can also mean the extent to which there exists an occupational specialization and to what extent this profession (i.e., being part of the elite) requires specific education, admission criteria and institutionalized control. Lengyel shows that the recruitment of elites in Hungary displays cyclical patterns that are linked to political cycles. During the early twentieth century, until nationalization, the first generation of rulers had neither specific training nor specific origin; they were the beginners, the entrepreneurs, who seized power based upon their competence. The second generation was selected mostly by their training and education; there was occupational specialization. After the political change, the choice of the ruling elite was made by criteria of loyalty to the political regime, with less emphasis on education; while after the 1960 loosening of political control, the choice of elites again was made according to the criteria of professionalization by education and institutional control.

Economists are also concerned with the consequences of mobility or lack of mobility on economic growth. They ask if there is an optimal amount of mobility into the elite. It is obvious that neither no mobility at all (a zero percent chance of entering the elite) nor perfect mobility (equal probability for each person) are optimal. How much is ideal? From the point of view of equality (equal opportunity for everyone) it is obvious that perfect mobility is ideal, but for economic success, the answer is less clear. When comparing the difference between the aristocratic European continent and the US, could this be one of the reasons for the difference in economic development?

In chapter 17, Brezis and Crouzet do not derive the optimal amount of mobility; they show instead that the ideal amount of mobility depends on the economic environment. Less mobility is better at the time of minor innovations and worse at the time of major inventions. When a country faces only mild technological and structural changes, the lack of mobility has even positive effects on the economy. However, at times of rapid changes in technology, the lack of mobility leads to the sclerosis of society and new technologies are not rapidly enough introduced.

Brezis and Crouzet argue that the lack of social mobility can be the consequence of the existence of only one school that recruits and educates the elite, for example, the ENA in France. This chapter emphasizes that although ENA is based on meritocratic admission, it does not permit social mobility. This problem exists in all countries where the top universities recruit on meritocracy, but is most acute in France since almost all the elite comes from the same small school. This unique pattern of elite formation leads to a monolithic elite that rules in all sectors of the economy and restrains the adaptation of technological changes; a result which should be compared with Lengyel’s finding that rapid change (political or economic) produces the opposite of a narrowly trained business elite.

The above mentioned chapters, although having different emphasis, have a common theme in that they all link elites and economic environment. They are all in the spirit of Max Weber who postulated that the key social element for economic growth is the elite. Elites were the topic of the first part of this book. In his study on religion, however, Weber also initiated an immense literature on minorities and growth, which is the subject of the next section.

3. Minorities

While Pareto was the main figure influencing theories regarding elites, Max Weber played this role for theories of minorities. Minorities are sub-populations that are distinguished by race, ethnicity, religion, or culture. Do they have a special place in the economy? If so, why? Our underlying assumption is that the individual members of minority groups have the same characteristics as the members of other groups. The question therefore is: “Why do minorities succeed differently than the average population?”

The various theories about minorities (in the fields of sociology and economics) can be divided into three main categories. The first is that minorities’ specific culture, ethic, or laws, set them apart and accounts for their progress. The second is that kinship or peer-group effects have more importance. The third is that non-conformism, and not the characteristics of the minorities themselves, is the key to the differential fortunes of minorities.

3.1 Culture

Weber (1930) was the precursor of research on the connections between a religious ethic and economics, between religious attitudes and economic behavior. His approach to the Protestant ethic made a tremendous impact on economic historians investigating the Industrial Revolution. Since the basis of Western capitalism is not only current profits, but also long-term profits, which are based on reinvestment at the cost of foregone consumption, the Protestant ethic gives justification to this economic behavior. Weber's line of thinking has been divided into two separate but not necessarily contradictory paths. For some it is the laws of the religion that are important in the creation of differential economic agents, for others only the side effects of religion.

In accordance with the first view, Weber had emphasized that religious values per se affect economic behavior. He had claimed that Calvinism is based on asceticism (while some other religions are based on mysticism and rituals). Since capitalism depends on the continuous increase of output through savings and investment, this ascetic value could be a major component of economic behavior in a capitalist environment. This Weberian position was popular among economic historians in order to explain the emergence of industrialization in Britain. They posited that high savings (due to the Protestant ethic) paved the way for the Industrial Revolution. However recent work has shown that domestic British savings in the eighteenth century were not enough to finance industrialization, which was financed partly by international flows of capital.[6] The asceticism and the savings motive lost their prominence in explaining the basis of capitalism, and the focus on the effects of the Protestant ethic has shifted from savings-asceticism to the side effects of religion: to values as rationalism.

Along this second line of reasoning, David Landes (chapter 8) analyzes the success of countries that tolerates minorities relative to those such as Portugal and Spain that expelled them under the Inquisition. He rejects the principle that it is religion itself that matters. Religious laws by themselves are irrelevant to economics but the secondary effects -- rationality, literacy (especially female literacy) and education -- have great consequences for economic development. Societies that repressed religious minorities diverted resources from economic development.

In chapter 11 William Rubinstein agrees with the view that non-religious components are important in explaining the behavior of minorities. He emphasizes that some of the characteristics needed to become an entrepreneur are in fact contrary to the Protestant ethic: it is not asceticism that is needed but the ability to be tough, even to cheat. The values of rationality, thrift and hard work are significant for success.

This interpretation of the religious ethic seems convincing but it has its own problems. Weber stressed that other communities such as the Chinese were also rational and educated, but in opposition to Calvinism, the Chinese conception of the world was one of harmony and equilibrium; there is no desire for change. The relationship between religion and economic success is still inconclusive. Interpretations of the relationship between minorities and economic behavior have gone beyond religious grounds and proceeded to psychological and sociological factors, interpretations that we now describe.

3.2 Peer group and kinship effects

The kinship effect is the result of the phenomenon that minorities stick together in business. In a primitive or lawless environment, economic transactions require a level of trust. Who can you trust in such a society? Your brother is the first answer, and one can move from there to more extended branches of a family. Peter Mathias (chapter 9) notes that it requires only a small step for the family to be extended to other members of a minority group. He stresses that the importance of the minority is not its religious theology but the social matrix in which the religion is a focal choice.

The economic reason for the importance of this effect is that it reduces the costs of transaction and information, which are very high in developing countries. Transaction costs and risk are much higher in developing than in developed countries, since financial and non-financial intermediaries are non-existent. In such an environment, minorities that have a strong inner-communication system, and better coordination between their members can reduce these costs and enhance the development of business which, in turn, will have spillover effects on the entire economy. This could explain why minorities are more successful in backward countries. Mathias argues however, that what we consider to be minority behavior may be typical of all business behaviors in less developed economies.

In chapter 12 Ayal writes about the Chinese minorities who had an important role in the development of the Southeast Asian countries. These countries were less developed and the private market was virtually non-existent. The phrase that “the Chinese are the Jews of Asia” reveals that some effects of minorities may be independent of the actual identification or culture of the minorities themselves. This opens the question as to why there is a lack of success in some minority groups (for example, African Americans in the US).

The theory of peer effects can explain why, on average, minorities might be different (whether better or worse) than the majority, despite the fact that they have, on average, identical characteristics. Steven Durlauf (chapter 13) explains how a peer-group or membership effect might lead to immobility between groups and the formation of strata in the economy. The result would be that different groups with identical microeconomic characteristics exhibit different aggregate characteristics (due to intra-group interaction).

Durlauf explains that membership in a specific community, minority or class leads to externalities regarding preferences and beliefs, since the characteristics of those groups, to which an individual belongs, condition the range of the individual’s economic prospects. This “peer-group effect” (social interaction) leads to conformity within the group or minority, which results in formation of inequality between the strata of the society.

A group therefore can create its own culture that will lead it to have beneficial economic behavior. In the presence of intra-group spillover, it is possible for two groups to exhibit the same individual characteristics but have different behavior. It is possible for a community to exhibit a collectively undesirable type of aggregate behavior in which individual choices are nevertheless rational. The success of Huguenots, Protestant, or Chinese, and their hard working behavior, could be due to social norms that are the result of a conformity effect.

3.3 The “minority” or non-conformism effect

A different non-religious explanation of minority success is highlighted in several essays in this book. They do not focus on the minority itself but on factors that can block majorities from succeeding. Landes (chapter 8) explains that the rejection of minorities is a manifestation of arrogance and self-confidence that leads to norms of censorship, inquisitions, and attitudes causing intolerant societies to miss out on scientific revolutions. The arrogance that leads the dominant groups to avoid innovations leads in turn to decadence. Rejecting minorities, he emphasizes, is different than just freeing the “human capital” of the minorities rejected; it is also distinct from the usual “exploitation effect” that leads to less capital formation and therefore less growth.

Joel Mokyr (chapter 14) also emphasizes that being a minority brings about a non-conformist and heretic behavior, which is a virtue for knowledge and innovation. In his chapter, Mokyr asks what environment is more propitious to the burst of a new invention, and he claims that it will be found in minorities, small groups and urban areas. Technological progress is an act of rebellion; innovation would occur more often if there were no need to overtake the “forces” that resist it. (Mokyr compares these forces to the conservative forces in biology.) When these forces are weak there will be more innovation. Minorities and small groups that are “open” to the world and that tend to be less resistant to innovation can be more innovative.

Finally, this book tries to provide reasons as to why certain minorities are more successful in specific sectors. The late Paul Bairoch (chapter 10) evaluated the role of Jews in the Industrial Revolution. He estimated their presence by using the indexes of all the important books on the Industrial Revolution, and found that Jews were almost not cited in these indexes; they were therefore absent from the Industrial Revolution. In order to analyze this surprising fact, he investigated their place in the advanced techniques, using indexes from encyclopedias of techniques. The results are that Jews were not present in the technical revolution, a fact that clarifies their absence in the Industrial Revolution. However Jews have played an important role in sciences which can be explained by the first Weberian cause: Jews are the “people of the book,” and intellectual scholasticism is part of the collective culture.

Rubinstein (chapter 11) underlines that Jews succeed better in developing countries. Indeed, Jews played a greater role in backward countries than in developed ones. Within the business elite their proportion was larger in Eastern Europe than in England. Jews participated in commercial and financial trade rather than heavy industry, perhaps because stock-brokering, financier and merchant activities required little investment in fixed capital that was too risky for the minorities. The kinship effect could be at work, but as stressed by Rubinstein, psychological effects such as marginality and self-esteem are also significant. It could also be that in backward countries, there is a lot of rent-seeking behavior with negative effects of corruption and therefore inefficient allocation. Minorities that are less prone to these negative effects will succeed better.

4. Conclusion

The chapters in this book analyze the interaction of social and economic factors by means of very different approaches, methods and models. Still, despite the apparent lack of association between the disciplines, we find some points of convergence between all these essays.

The first issue investigated in these essays which deserves more research, is that the analysis of forces opposing growth is no less important than understanding the factors explaining it. The emphasis in classical works on growth (see Grossman and Helpman, 1991; Barro and Sala-I-Martin, 1995) is on the factors that permit the adoption of new technology. Some of the papers in this book have emphasized that the focus should also be on the forces that inhibit economic growth: religious structure, bureaucracies, the division of power, the monopoly of power. Impediments to economic growth should be analyzed more seriously. Specific social groups -- more specifically, ruling elites -- can, due to their incentives, enhance or restrain development.

The second point, held in common by both sociologists and economists, regards the effect of competition on growth. On one hand, economic theory has shown that competition and the absence of concentration in markets leads to economic growth. The consequence of competition or, in political terms, the balance of power, is that monopolies have less reason to adopt new technologies and to stay efficient. In sociological theory, the interconnection and lack of competition between elites in politics have repercussions on the economy as well as on the political system (as underlined in the theory of democratization). Elite plurality is needed to restrain the elite's grip on power which otherwise would act against innovation and growth.

On the other hand, there are arguments in favor of concentration. Schumpeter claimed that monopolies and monopoly rents are needed to develop new goods and to promote investment in research and development. The parallel sociological theory is that elite unity -- when elites do not have divergent motives -- can be positive. In both disciplines, the effects of competition on welfare are ambiguous; in certain circumstances, the concentration of power is conducive to better collusion and reduces innovation, and in others, the lack of competition (or the interconnection of elites) may be optimal.

A third point this book emphasizes, which has been ignored until now in growth theory, is the dissociation of groups within the power structure. The institutions and social factors that North (1990) put on the agenda have filtered into the realm of economists (especially factors like the political structure). However, inter-relations between power groups have been avoided completely. This book shows that elite interconnection may be a more powerful explanation than the overall political structure since empirical analysis has highlighted that the simple existence or absence of democracy does not provide a good explanation of economic growth. But if economists are to deal with and adopt these factors as affecting economic growth, sociologists will need to quantify and find proxies for their parameters. This will lead to a better relationship between the disciplines.

Finally, these chapters lead to the conclusion that there is a lack of consent about the effect of mobility on welfare and about the optimal amount of mobility for society. Mobility into and out of the elite may not be the same as mobility of minorities within society. These essays describe and analyze the former but not the latter since most of them assume membership in minorities as given. More work is needed to see if this contrast is real or an artifact of our intellectual traditions.

Optimal mobility may be affected by the socioeconomic structure of society and by the speed with which it is changing, which makes the optimal mobility endogenous to the social environment. The chapters of this book describe mobility during periods of both rapid change and relative stability. The patterns of mobility are different, and the implications of mobility for economic growth may be different as well.

Part of our ignorance, as noted in this Introduction, is that we do not yet understand the mechanisms by which elites are chosen and sustained, and by which minorities exert their influence on society at large. We are convinced that these questions are close to broader questions of economic growth, and hope that this book will direct attention to them. But it is unlikely that there are unitary mechanisms; rather, as portrayed in this book, there is a variety, a veritable cornucopia of possible mechanisms.

The conference and this volume have promoted interaction between various disciplines, delving into areas familiar and unfamiliar to any single scholar. But this is only the beginning of the analysis of the role of elites and minorities in economic growth. Much is left to analyze in the future. More work is needed before the separate colors of the various disciplines can be reassembled into a coherent coat of many colors.

Notes

1. Although the "new growth theory" recently has approached them from an abstract point of view (see Barro, 1996b) economic historians have dealt with the impact of institutions on economics (see North, 1990).

2. For a survey on these elements on the British elite, see Stanworth and Giddens (1974).

3. See also Galbraith (1952), Rose (1967) and Riesman (1950).

4. Dahl used the term of Polyarchy to express the idea that the political system displays freedom of organizations and civil liberties.

5. For sociologic theory, see Lipset and Bendix (1959); for historical work, see Landes (1949, 1998).

6. See Brezis (1995).

References

Aaronovitch, A. 1961. *The Ruling Class*. London: Lawrence and Wishart.

Abramovitz, M. and P.A. David. 1996. "Convergence and Deferred Catch-up: Productivity Leadership and the Waning of American Exceptionalism." In R. Landau, T. Taylor and G. Wright, eds., *The Mosaic of Economic Growth.* Stanford: Stanford University Press, pp**.** 21-62.

Aron, R. 1960. "Social Class, Political Class, Ruling Class." *European Journal of Sociology* 1: 260-81.

Barro, R. 1996a. "Democracy and Growth." *Journal of Economic Growth* 1: 1-27.

Barro, R. 1996b. "Institutions and Growth, An Introductory Essay." *Journal of Economic Growth* 2: 145-8.

Barro, R. and X. Sala-I-Martin .1995. *Economic Growth*. New York: McGraw-Hill.

Bowles, S. and H. Gintis. 1986. *Democracy and Capitalism*. New York: Basic Books.

Braudel, F. 1979. *Civilisation materielle, économie et capitalisme.* Paris: Armand Colin.

Brezis, E.S. 1995. "Foreign Capital Flows in the Century of Britain's Industrial Revolution." *Economic History Review* 48: 46-67.

Crouzet, F. 1985. *The First Industrialists*. Cambridge: Cambridge University Press.

Dahl, R. 1957. "The Concept of Power." *Behavioural Science* 2: 201-15.

Dahl, R. 1959. *Social Science Research on Business*. New York: Columbia University Press.

Davis, K. and W. Moore. 1945. "Some Principles of Stratification." *American Sociological Review* 10: 242-9.

Domhoff**,** W. 1970. *The Higher Circles*. New York: Random House.

Galbraith, J. 1952. *American Capitalism*. London: Hamilton.

Grossman, G.M. and E. Helpman. 1991. *Innovations and Growth in the Global Economy*. Cambridge: MIT Press.

Forbes, K. 1997. "A Reassessment of the Relationship between Inequality and Growth." MIT: mimeo.

Higley, J. and M.G. Burton. 1989. "The Elite Variable in Democratic Transitions and Breakdowns." *American Sociological Review* 54: 17-32.

Hunter, F. 1959. *Top Leadership USA*. Chapel Hill: University of North Carolina Press.

Landes, D.S. 1949. "Social Attitudes, Entrepreneurship and Industrial Growth in the Nineteenth Century." *Journal of Economic History* 9: 45-61.

Landes, D.S. 1998. *The Wealth and Poverty of Nations: Why Some are Rich and Some are Poor*. New York: Norton.

Lipset, S.M. 1959. "Some Social Requisites of Democracy." *American Political Science Review* 53: 71-85.

Lipset, S.M. and R. Bendix. 1959. *Social Mobility in Industrial Society*. Berkeley, CA: University of California Press.

Mathias**,** P. 1983. *The First Industrial Nation, An Economic History of Britain 1700-1914*. London: Methuen.

Michels, R. [1915] 1959. *Political Parties*. New York: Dover.

Miliband, R. 1969. *The State in Capitalist Society*. London: Weidenfeld and Nicolson.

Mills, C.W. 1956. *The Power Elite*. New York: Oxford University Press.

Mosca, G. 1939. *The Ruling Class*. New York: McGraw.

North, D.C. 1990. *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.

Pareto, V. [1906] 1909. *Manuel d'économie politique*. Paris.

Pareto, V. [1916] 1935. *The Mind and Society: A Treatise on General Sociology*. **(**First edition in Italian.) New York: Harcourt, Brace and Co.

Parsons, T. 1960. *Structure and Process in Modern Societies*. New York: The Free Press.

Parsons, T. 1963. "On the Concept of Political Power." *Proceedings of the American Philosophical Society* 107. Reprinted in T. Parsons, 1969, pp. 352-404.

Parsons, T. 1969. *Politics and Social Structure*. New York: Free Press.

Perotti, R. 1996. "Growth, Income Distribution, and Democracy: What the Data Say." *Journal of Economic Growth* 2: 149-87.

Riesman, *D. 1950. The Lonely Crowd*. New Haven, CT: Yale University Press.

Rose, A. 1967. *The Power Structure*. New York: Oxford University Press.

Smelser, N.J. and S.M. Lipset. 1966. *Social Structure and Mobility in Economic Development*. Chicago, IL: Aldine.

Stanworth, P. and A. Giddens. 1974. *Elites and Power in British Society*. London: Cambridge University Press.

Schumpeter, J.A. 1934. *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle.* New Brunswick, N.J: Transaction Books.

Schumpeter, J.A. 1954. *Capitalism, Socialism and Democracy*. London: Routledge.

Teece, D.J. 1993. "The Dynamics of Industrial Capitalism, Perspectives on Alfred Chandler's Scale and Scope." *Journal of Economic Literature* 31: 199-225.

Weber, M. [1905] 1930. *The Protestant Ethic and the Spirit of Capitalism*. (Translated from *Die protestantische Ethik und der 'Geist' des kapitalismus.*) London: Allen and Unwin.

Williamson, O.E. 1981. "The Modern Corporation: Origins, Evolution, Attributes." *Journal of Economic Literature* 19: 1537-68.