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ECONOMIC COMPLEXITY AND THE WEALTH OF NATIONS

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Are we entering in a winner-takes-all economy? Why and what can we do about it?

We live in an increasingly connected and interdependent world in which globalization continues to encourage exchanges between different global players.
Each market sets up a system of competition. Competing companies offer more or less the same thing, but this is not the case for all companies. Indeed, in an era where increasingly advanced technology is combined with a desire to stand out in order to get to the top, companies choose to innovate (sometimes strongly) to stand out from the crowd and thus create new demand which, if it is favorable, will place them in a leading position.
This process has led to the emergence of "super-companies" such as Google, Apple or Amazon, which, through their increased dominance in their sector, are taking all the credit. This enormous income allows them to seek cheaper and cheaper labor (through offshoring, for example) and thus keep the wages of their workers at a lower level. This process is a major contributor to the increase in inequalities in the world. This is known as the "winner-takes-all" economy.

« A winner-takes-all market refers to an economy in which the best performers are able to capture a very large share of the available rewards, while the remaining competitors are left with very little. The prevalence of winner-takes-all markets widens wealth disparities because a select few are able to capture increasing amounts of income that would otherwise be more widely distributed throughout the population » this definition by Adam Hayes explains perfectly what a winner-takes-all economy refers to.

Winner-takes-all economy generally leads to an oligopolistic market, which is a small handful of large, powerful companies which control a majority of market share. In the most extreme case, a monopoly is where just a single firm exists controlling an entire market. These large firms either buy up smaller firms or put them out of business by out-competing them in the marketplace.
This situation is also found in stock markets which lead to a winner-takes-all situation where the rich get richer and extends wealth inequality.

Digitalization, the growing use of digital technologies in the ways businesses interact with each other and with their customers and suppliers, has radically changed the rules of the market game in almost every industry.
Many economists agree that the undeniable superiority of winner-takes-all markets is stretching as technological advances reduce barriers to competition in many areas of trade. The rise of large multinational corporations, such as Wal-Mart, is a perfect example of a winner-takes-all market. In the past, there was a wide variety of local stores in different regions. Today, improvements in transportation, telecommunications and computer systems have removed the constraints of competition. Large companies like Wal-Mart are able to effectively manage vast resources to gain an advantage over their local competitors and capture a large market share in almost every segment in which they operate.

This is an example of the "Matthew effect", first described by sociologists in the 1960s. This effect consists of the fact that in a winner-takes-all situation, the rich get richer and leave the rest behind. Indeed, stock markets and other winner-takes-all systems can be examples of zero-sum games (a game where the sum of the gains and losses of all players equals 0 implies that the gain for one means the loss for the other(s)) where the winners must take over at the expense of the losers. There are other systems in which an increase in wealth raises all players where the gains are mutually beneficial instead of zero-sum. Countries with strong social protection systems, such as the Scandinavian countries, are prime examples. A possible disadvantage is that these systems offer fewer overall potential benefits to the winners as wealth is redistributed more equitably among all.

As well as digitalization, globalization also radically changed the rules of the market game with the integration of domestic and overseas markets.
In some industries, digitalization and globalization have created a winner-take-all game in which the company that wins the game accrues almost all the pay-off.
By attaining either a scale advantage (the cost advantages that enterprises obtain due to their scale of operation (typically measured by the amount of output produced), with cost per unit of output decreasing with increasing scale)
or a network advantage (the revenue gains associated with a large distribution network)
The perfect example here is the e-commerce industry, where Amazon has achieved the size to be the winner-take-all. In the search engine industry, Google is the winner-take-all player and in the social media industry, the winner-take all player is Facebook.

This winner-takes-all economy has many consequences.

First of all, the tendency to replace human tasks with advanced technology is a consistent and understandable theme in the debate about how technology is affecting financial markets.
Policy makers, however, are already focusing on a longer-term trend which is: how the benefits of scale in digital industries will concentrate activity on a smaller number of investment providers. According to Mark Yallop (member of the Prudential Regulation Committee), "the way in which machine learning models improve through access to larger amounts of data, will benefit companies with larger budgets".
One example is Wal-mart, which is annihilating competition with its virtually unlimited resources and mastery of technology to ensure relentless logistics.
He adds that this "could well in turn create very high barriers to entry (obstacles that a company wishing to enter a new market must overcome) for new businesses.
Markets have also changed fundamentally over the past decade, as improved technology reduces transaction costs.

In this age of cutting-edge technology, companies are constantly innovating in order to stand out from the competition. These strong innovations sometimes place companies in a favorable competitive situation, taking advantage of economies of scale to reduce their unit costs and thus produce more for even less and thus create a profit. Competitors are forced to follow suit and adjust to the leader, which often leads to monopolistic markets. Competitors who are lagging behind are forced to close down or are sucked in by the leader. This is the case for Amazon, which dominates e-commerce by far.

There are, however, some solutions to deal with the winner-takes-all economy.

One of them is the collaborative economy. The collaborative economy consists of exchanging or sharing services or goods between individuals. From the exchange of clothes through sites like Vinted to the rental of vehicles between individuals, it is now ubiquitous in all areas. Housing, transportation, food, help or even clothing, collaboration is an integral part of our society and it calls upon primary human instincts such as mutual aid.
The principle is very easily accessible and makes it possible to test or be tempted by new services that would otherwise have been inaccessible.

This saving has many advantages. The number one advantage is cost reduction. It makes it possible to take advantage of a service at a reduced price, to find another alternative, to drastically reduce operating costs and finally to make ends meet.
In addition to the economic aspect, the collaborative economy awakens the human aspect. It is often an opportunity to get to know a neighborhood neighbor or a passionate person who wants to teach you a lot about his or her favorite activity. This approach advocates mutual aid and win-win exchanges.
Finally, it is a way to fight against waste by giving a second life to objects and limiting overproduction.
For example, with daily carpooling, you can halve your fuel budget and reduce your ecological impact.

The French Ministry of Economy has released some figures about collaborative economy. This new mode of consumption has allowed the creation of many companies. There are currently no less than 90,000 start-ups on the global market of collaborative consumption. While the turnover was 20 billion euros in 2013, it should reach 302 billion euros within 5 years.
In 2019, 89% of French people have already used the collaborative economy. Indeed, new platforms continue to emerge every day to meet the needs of users.

About a company that wants to impose itself in a winner-take-all economy, what does it require?

According to the business consultant Dan Neiweem, "the most important rule for being competitive in the digital economy is to offer a relevant customer experience and develop an online and in-store strategy that meets the unique needs of customers at every moment".
For him, that's what Walmart did in its bet to take on Amazon.
He adds that "Walmart has completely evolved its traditional bricks and mortar sales (refers to a traditional street-side business that offers products and services to its customers face-to-face in an office or store that the business owns or rents) strategy to respond directly to the needs of its customers through multiple channels (online, on the same field as Amazon)

However, while a face-to-face strategy may work for large, well-established companies like Walmart, it does not work for small start-ups because they do not have the resources to compete with the dominant player and are therefore forced to join the dominant player.

In conclusion, the world is in the grip of giants that are exploiting technologies to capture almost all of the market share. Their supremacy creates huge inequalities and there is unfortunately no effective solution to deal with them. Small means are being put in place that go against the grain of a winner-takes-all economy, but the results are insignificant compared to those of the giants that are Apple, Amazon or Facebook.

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