

Are we entering in a winner-takes-all economy?

Why and what can we do about it?

LAEC503V - Economic Complexity

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Modern economy develops with a pace exceeding the light speed : millions of transactions take place per second, millions of products arrive on the market every day, billions of people earn and spend money - eternal cycle of exchanges which pushes the global economy to the new level, defining it's form, it's hierarchy and it's trends.

One of the trends imputed to the modern global economy is it's "winner takes it all" character. According to several points of view, we are entering into a so-called "winner takes it all economy". But is it so? Or maybe it has always been the case? And if it is, do we need to do something about it? And if yes, what exactly?

In this essay I will try to find out answers at least for some of those questions and also to understand why all those questions merit to be evoked.

To estimate the validity of the statement "We are entering in a winner takes it all economy" first of all I would like to peel and precise the notion of "winner takes it all economy" to assure the full understanding.

In the book "The winner-take-all society" by Robert H. Frank and Philip J. Cook published in 1995 (so the subject was studied already 25 years ago , which questions the “entering” aspect of the topic) authors describe winner takes all markets through several examples from sports, music and film industry. In those industries those few who are most successful and famous gather “harvest” the most important part of the market. An example of tennis players is quite illustrative: best players get their champion rewards, but they also gain all the fame and, what is important, all those “side benefits”, like contracts with sport clothing brands, nutrition companies, etc. Those who are pretty good and strong, but don’t manage to make into Top-3 (in the best case, sometimes being even number 2 is not enough) are easily forgotten:

“For example, the Australian Wally Masur, among the top fifty players in the world for many years, in 1993 was a semi-finalist at the U.S. Open. At no time during his career, however, did manufacturers offer tennis shoes or racquets bearing his signature” ("The winner-take-all society" by Robert H. Frank and Philip J. Cook, p. 13).

A resembling pattern can be observed in other industries which basically are not supposed to define a unique clear winner. Moreover, in order to maintain the economic balance and to approach the “perfect competition” (or at least it’s “close-to-perfect” option), there should not be “absolute winners” at all - agents should not be able to influence the market drastically. The “winner takes it all” definition may be also associated with an

oligopoly - when a really small number of players takes control over the market. As we may see thanks to simple research, this pattern is present indeed, and not only on industrial, but on a global level as well. Maybe not in a “out-and-out” version, but in a “relatively small amount of powerful players take the biggest share and leave only crumbs for losers” one.

In order to justify those statements let's take a look on some specific examples.

A vivid case - the war between Amazon and small independent book stores. Amazon offers cheaper books, and their offers are enforced in the eyes of customers with their cheap (sometimes even free) and fast delivery. According to independent analyst Benedict Evans, “Amazon has 50% or more of the US print book market, and at least three quarters of publishers’ ebook sales (it also has its own ebook publishing business, for which it has never disclosed any data)”. Being a strong player on the market, Amazon has a power to influence publishing companies, cut publisher payments, author payments. Also Amazon profits from corporate tax cuts which also are accessible for the company due to its size and influence : companies can get tax credits if they invest into Research & Development, real estate (building plants, warehouses and purchase of equipment). It’s easily understandable the small companies and shops cannot afford those investments and therefore cannot profit from tax credit programs. All together those factors let Amazon maintain its position of almost a single-player of the market (with Apple Books on the second place in e-book retailing and few relatively successful retailers of printed books as publishing houses “Barnes & Noble” or “Penguin Random House”).

Similar examples can be observed in various industries (if not in almost every industry, as perfect markets simply do not exist) : automobile industry with not even 15 companies dominating the global market (such as Ford, Tata, Toyota, etc.) ; mobile and PC-software developing industry (Microsoft, Android, iOS); searching engines (Google and Bing). All those companies manage to increase their market share every year, leaving smaller competitors ignominiously far behind, and not only thanks to their brilliant new ideas, but also thanks to this positive snow-ball effect : money attracts money.

If we take a look at this trend on the global level, we can observe a similar pattern : for decades (if not centuries) the same few countries dominate the global market, while the rest of the world content from an incomparably tiny part of exchanges. The same few countries accumulate global wealth, leaving their less lucky (or less nimble?) rivals far behind. It can be easily proved thanks to simple statistics.

For example, according to the data of Statista.com, in January 2020 USA stock markets represented 54,5% of the world equity market value (and it's absolute dominance lasts since the first World War), Japan - 7,7%, UK - 5,1%, China - 4%, France - 3,2%. And only 25,5% rests for... 190 countries.

If we evaluate the share of the global economy via comparing the nominal GDP¹, the picture is not different : according to data from Investopedia.com “top economies don't budge easily from the positions they hold. When compared to the top 20 economies of 1980, 17 are still present on the list, which means only three new entrants”. Top-10 headed by the USA represents 66% of the global GDP, countries on the positions from 11 to 20 share modest 13%, and the rest of the world which is no less than 172 countries represent only 21%.

In 2019 a Youtube channel WawamuStats published a video entitled “Top 20 Country GDP (PPP)² History & Projection (1800-2040)” which illustrates the phenomenon of economic dominance of a few countries through an animated graph (<https://youtu.be/4-2nqd6-ZXg>). Through 220 years the Top 20 didn't drastically change, at least there were no surprising “newborn stars”, and all major fluctuations were justified by historical, economic, politic events (like the Chinese economy decay during “the century of humiliation” when China had lost control over some of its territories and was forced to follow international commerce rules imposed by Occidentals).

As we see, this order of things is present for years and years, so saying that we just enter this type of economy might be a little understated. The point is that the global economy expands very fast, and during the last decades it became just more visible on the global scale.

So if this phenomenon is quite natural and actually takes part of our lives since the beginning of times, do we have to worry about it? Probably if it's natural it represents no threat? And even if it might be “mortal” for some economic players, maybe it's a natural order of things and the economy “cleans” itself, like nature does through natural selection ?

The answer is : yes and no.

Yes, because the economy does really resemble an ecosystem, it passes through different phases, forms, degrades or evaluates - all this takes a part of its life cycle. And if the economy naturally (without any “artificial” influence) transforms into such an organism,

¹ GDP - Gross Domestic Product

² GDP (PPP) - Gross Domestic Product by Purchasing Power Parity,

where a powerful minority dominates the whole market, that just means that at this point it must be so and it's normal.

But what are the risks? There are some of them.

Current trend might be described as “total digitalisation” : gross, retail markets are more and more represented in the virtual space, communication takes place via the Internet, many tasks performed before by people (selling, guiding, etc.) were replaced by servers and wires. That means that many jobs are lost and forgotten. Competition between companies goes on at the “who has the best technology” level, and that reinforces this tendency of “dominated by a few” world.

As the form of economy influences not only “big players” like companies and countries, but also impacts all human beings, we all feel how “winner-takes-all” reality reflects on our lives. Such a form of economy leads to growing income inequalities which become more and more drastically visible because of the growing pace of economic development. And widening the gap between the richest and the poorest can lead to dramatic consequences, even to wars.

How can we prevent, or at least slow down this movement?

There are several solutions, but none of them seems to me to be a remedy, just a temporary supportive therapy.

First of all, to avoid a concentration of wealth under the roof of one company, governments can install anti-monopolist legislation (which is the case for some countries).

Another solution - a system of fair taxation in order to redistribute wealth more equally, but the inconvenient of this approach is that it limits the development level of potential “winners” and even demotivates in some cases.

On the global level the only solution I see is the opening of the world to an ideology where there is no confrontation between “us” and “them”, but only cooperation, mutual support and development. It might probably slow down the pace of development in a short-term perspective, but would give impressive fruits in the future where the whole humanity will be able to exploit its potential at the very best : free exchange of knowledge and skills, wise and equal distribution of resources - the world of possibilities and mutual empowerment.

I should honestly admit that this topic is extremely large and any judgement does involve not only economic aspects, but also moral. So, while trying to answer the question

I've asked myself at the beginning of the essay, I found out another question which I would like to answer to myself in future : how could we harmonically make coexist laws of the market, which follow primary financial interest, and the humanism, without running to extremes but still taking into account all aspects, both economic and human ?