

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



Imagined a professional runner "X" running a distance of 100 meters at 13 seconds. Now, imagined another professional runner "Y" able to run 100 meters in 9 seconds; 4 seconds less than the first one.

The winner, and therefore the best of the two, is the second runner who was able to make a slight difference in relative performance . Such a difference means that runner "Y" has a promising career ahead of him while player "X" seems doomed in the worst case to be forgotten because he is not as good. It will take a monumental effort from player "X" to reach this impressive score.

Being the best runner, "Y" wins it all, he will have a better sponsor, more money, better sports equipment, more recognition, media coverage, etc. The benefits for runner « Y » are truly exponential. At the top in his category, he gets everything.

To me ,this example on professional runners can apply to today's economy. So are we entering a winner takes all economy ?

The answer for me is yes : markets favor the few at the expense of the many. We can often observe a market in which the product or service is slightly better than what's its competitors are doing , which then receives a disproportionate share or all of the available profit for that category of service or product. This implies that some participants in this

market have at best, a smaller share. And others, fight for a few crumbs and very rarely survive.

Companies as they become profitable can also have a tendency to influence society in unfair ways. With this concept, every sector is going to be dominated by one or two companies maximum . It creates an uncompetitive economy with high prices and low employment. The "winner takes all economy" also assumes that winners have a lot of power over how to dictate these outcomes. In other words, in an economic system, competition allows the best performers to rise at the top at the expense of the others, considered as losers. This concept can be applied in several fields related to the economy. Books, musics, foods, telecommunication companies are just a few examples. Indeed, a "winner takes all » economy , may be the result of an oligopoly, where there are only a few large and powerful companies that control the majority of the market shares. Google, Facebook, Amazon, Apple, Microsoft, so many companies belonging to the technology market that are in this economic scheme, where they are either being a part of oligopoly or monopoly. These companies very clearly represent the economy of the beginning of the 21st century, a capitalist economy where the winners are powerful and concentrate everything.

This is also the case for stock markets and other potential zero-sum systems which also lead to a similar situation where the rich get richer and extends wealth inequality.

One could almost say that the concept " the winner takes all " is spreading like a virus everywhere. The richest cities continue to get richer, just like Tim Cook, Harvard University, or in a lighter way, the singer Post Malone at the Billboard Music Awards 2020, being the best winner, bringing home the top artist prize and winning nine awards overall. In fact, the most important and innovative industries, the most talented, ambitious and wealthy people are now converging in large cities that are also centers of knowledge and technology. Even in urban sector, we find the same scheme of "winners take all" where this small group representing the elite is progressing while a good number of cities are struggling, stagnating or lagging behind.

But what is the reason for this concept where « the winner takes-all » in economy ? It could be explained by the economy becoming more complex, with for example the rise in power of multinational companies. These large companies have the capacity to efficiently manage large resources in order to gain an advantage over their local competitors and to capture a large market share in almost all segments where they operate. This is closely related to the fact that there have been many innovations in the past, such as

improvements in transportation, telecommunications, and computer systems that have removed the constraints of competition.

Another reason is the vicious cycle of networking effects which is one of the reason of the winner-take-all economic . These effects are created whenever a company's users create value for other users. This allowed some companies to eventually dominates the competition.

Let's take as an example Apple : The more people buy iPhones, the more develop apps will be use for those Iphones. And the more the iPhones are better, the more there is people who want to buy this product.

Even if we can all agree on the fact that networking effects aren't new , we can definitively said it was different in the past because they were limited by high transaction costs.

Today, transaction costs aren't that high anymore so networks effects can become crucial. We could also quote the meteoric rise of the U.S. equity markets between 2009 and 2019 which has led to a winner-takes-all market.Indeed, rich people who have invested a large percentage of their overall wealth in the U.S. equity markets have taken advantage of large market benefits during this period which have led to outsized increases in income and wealth when compared to the growth experienced by the rest of the U.S. population. Wealth and income disparity have increased significantly during this period with a large portion of the gains going to the richer.

In the 2000's, the economists Robert H. Frank and Philip J. Cook popularized the concept of the winner-take-all economy and society. They saw this phenomenon spreading throughout the all economy, as large pay disparities appeared in industries ranging from banking, consulting and management to design, fashion, law , and medicine. And also, in the case of cities like I said before. They generate the greatest levels of innovation, control and attract the largest shares of global capital and investment. But that is not all , they have huge concentrations of leading-edge finance, media, entertainment, and tech industries.If we follow this , people are sort of obliged or they really need to live in those cities to be a part of it. To put it differently, you need Paris or Silicon Valley but you do not necessarily want to live in it .

All of this, illuminate one of the contradictions of contemporary capitalism: the general huge amount of concentration(power, wealth,etc) is at once the main cause of economic growth and the biggest driver of inequality.

With this type of economy , resources are never distributed evenly among people. In almost every situation, a small number of people or organizations are the winners. Can we really do something about it ?

At first, I thought that nothing could be done to rebalance this economy in favor of the winner . I was thinking that maybe the best idea was to let winners destroy themselves because of, for example, the lack of innovation (due to the fact they rely on old things that are still trending) or by the desire of wanting always more which could lead to government sanctions.

But when I think about it more, I think that in view of this new complex system, we can also bring an answer and thus improve this system, but it will not be easy. First, I

I am definitively convince that government should intervene a lot more by as an example sanctions more or encouraging the smaller companies with positive actions.

Dividing the giants companies into small ones could be an idea .But will it hold up in the long term? It may not work with companies such as Google for example . In the case of regions, they should re-invent themselves and not just copy big cities in order to prosper in the long run. Also, using a tool like relatedness could help a special area to specialize itself . It is , indeed, measuring the “similarity” or “compatibility” between an economy and an activity.

Plus, instead of competing in some areas , I think we should choose to collaborate by connecting to regions that also have complementary capabilities .The goal is to join forces in order to become better and stronger in the long term.

However, a shadowy part remains in my thinking, what to do when a product or service is just appreciated, because it is known to be the best? You can't really change someone else's opinion. If I google " the best restaurant in Martinique", it's because I want what it's best for my belly and my palate. So I think we have to agree on the fact that if there are many things that can be done to improve this economy, there are other factors that we can't really change. At some point, maybe we have to give the economy time to regulate itself.

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By Erika MAVINGA: LAEC503V- 0210022010984