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ESSAY

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

"The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The third used electronics and information technology to automate production", said Klaus Schwab (1938-), a German economist and engineer, the founder and executive chairman of the World Economic Forum. So, it is clear that today's world is functioning and processing by information and technology, but the most relevant point is the essential role of the digital market. It has become a mad rush. According to a market study by the consulting firm Wavestone, 61% of consumers periodically purchase online. Naturally, like in every single market, the competition is accruing. But in this frantic race, which worth billions and billions of dollars, a few companies stand out and they have been named commonly the GAFA. So, are we entering in a "winner-takes-all" economy? To respond to this question, we are going to focus on this nearly monopolistic companies and we are going to try to understand why and to find out possibly solutions throughout the essay. In the first part, we are going to give key definitions and an overview of the digital market. In the second part, will be explained the role of the GAFA, illustrated with figures and graphics, and to conclude, in a third part, we are going to examine the issues and the solutions.

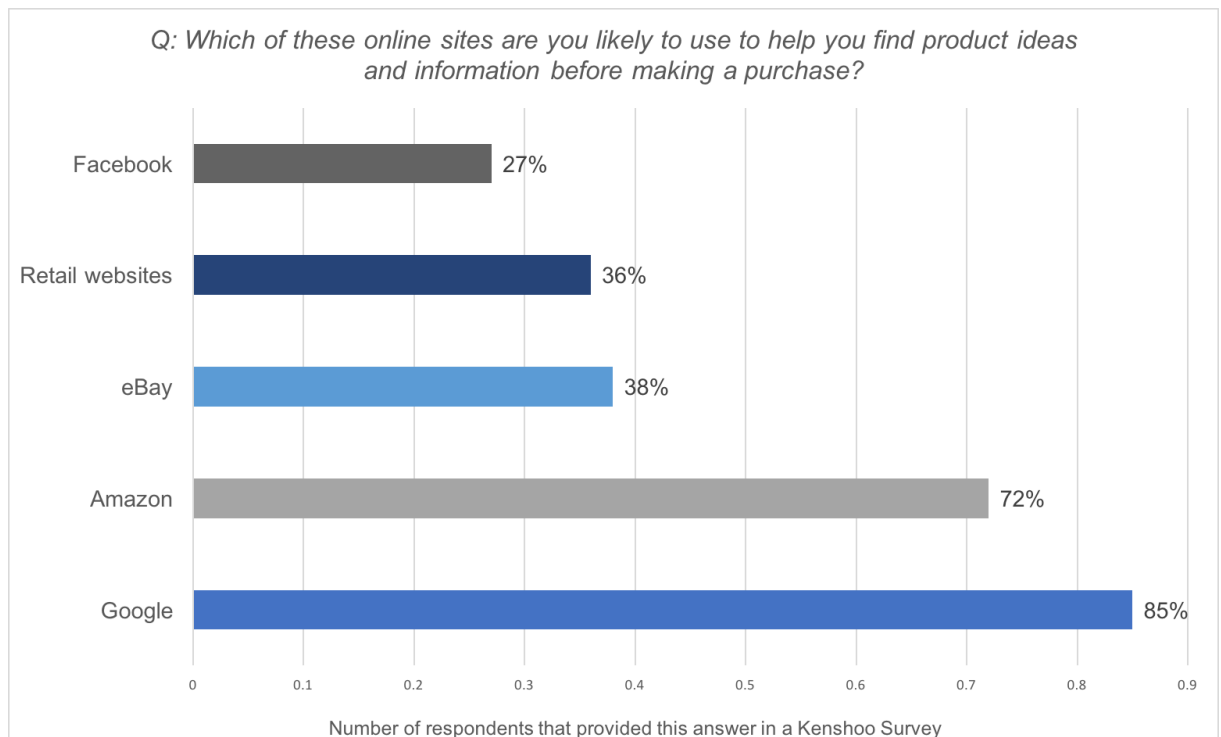
To start with, the term "winner takes all", according to the Cambridge dictionary is: *"resulting in the entire prize going to the one competitor who wins. his winner-take-all business tactics (= specific actions intended to get a specific result) shut out would-be competitors (= kept other people from competing with him)."* Although this term is generally used for the election system, it is truly relevant for the economic system as well because it illustrates the spirit of this companies. Let us see another specific definition which could confirm the precedent ideas, according to *Investopedia.com*: *"A winner-takes-all market refers to an economy in which the best performers are able to capture a large share of the available rewards, while the remaining competitors are left with very little."*

To give a representation of the digital market, according to Digitalcommerce360 analysis, the most visited online marketplaces sold a total amount of \$2, 03 trillion in 2019, which represents 57% of the parts. It is interesting to constate that these marketplaces are based mostly in the United-State and half of the expenses were made on the top 100 of global markets. These figures are incredibly raised due to a concentrated power. Here a few examples of these huge global companies, by their country, product and monthly visits:

#	Type	Name	Region/Country	Product Category	Visits/month
1		Amazon	Global	General	5.7B
2		PayPay Mall	Japan	General	2.1B
3		eBay	Global	General	1.6B
4		Mercado Libre	South America	General	661.7M
5		AliExpress	Global	General	639.1M

Source : <https://www.webretailer.com/b/online-marketplaces/>

Now if we focus on the informational and technological aspects, we can see that, before a consumer make a purchase, he/she can be influenced by several factors. Indeed, the social media helps the consumer to make simple decisions by finding their needs at any time. Dan Neiweem, co-founder of Avionos said : *"The digital economy is a trillion dollar sector, crowded by tons of players all vying for consumers' attention."* So, these aspects of the online medias are especially important and relevant to understand the competition between companies. Here is a graphic that illustrates the previous ideas (source: bigcommerce.com):



Then, in the following part we will be focused on GAFA, an acronym for Facebook, Apple, Google, and Amazon. As seen in the previous graphic, they almost dominate the digital market thanks to the scale advantages and network advantages. These four multinational firms are, respectively, the leader of their market. For example, Google is used by 90% for research on the Internet. Moreover, each of them has its other services, for example: Facebook has Messenger, WhatsApp and Instagram.

MONOPOLIES:

Global scale and Capacity to Experiment



Google: 90% of Search



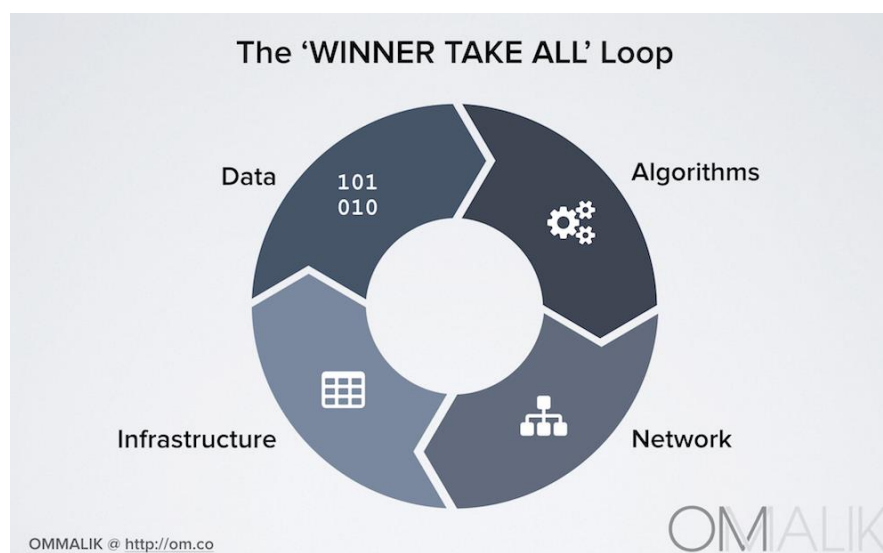
Amazon: 43% of B2C retail



Facebook: 55% of social media

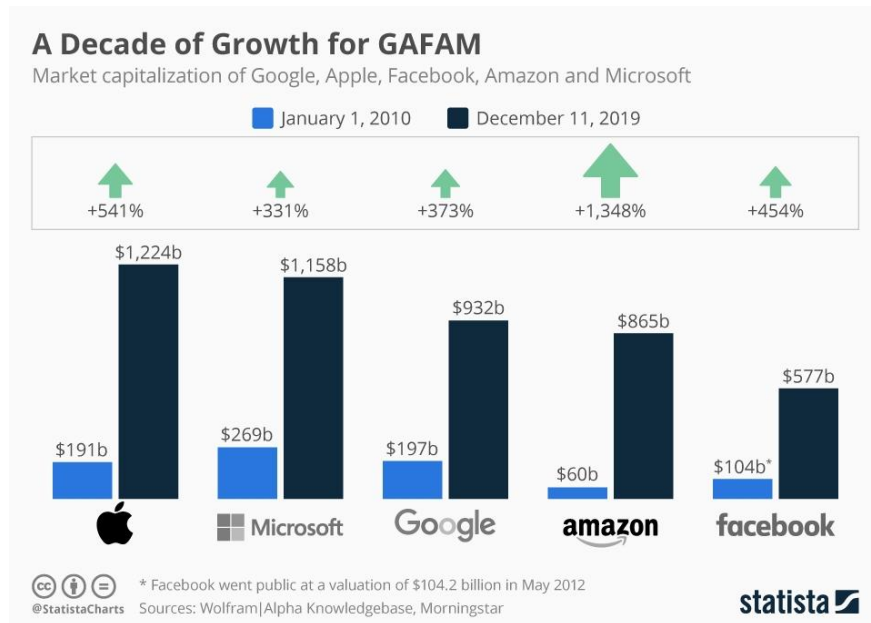
Source : André Loeseckrug-Pietri (J.E.D.I.)

At the beginning, the Internet was supposed to give multiples opportunities to any start-up or firms. One must say that contrary to a traditional business, the online market is decentralized, more accessible and more advantaged by the costs. But now, the digital market is dominated by a few of the big companies. The rational explanation is the easy access to the consumer information and then to use it with targeted ads. In that way, they are creating a dependence. This can explain the empowerment of the GAFA. But also, they have a larger field because it is more difficult to be controlled and be regulated by the authorities. So, as it was said in the introduction, it is a mad race, a colossal amount of money is invested for the algorithms to attract more people. Here an example (*source: omalik.com*):

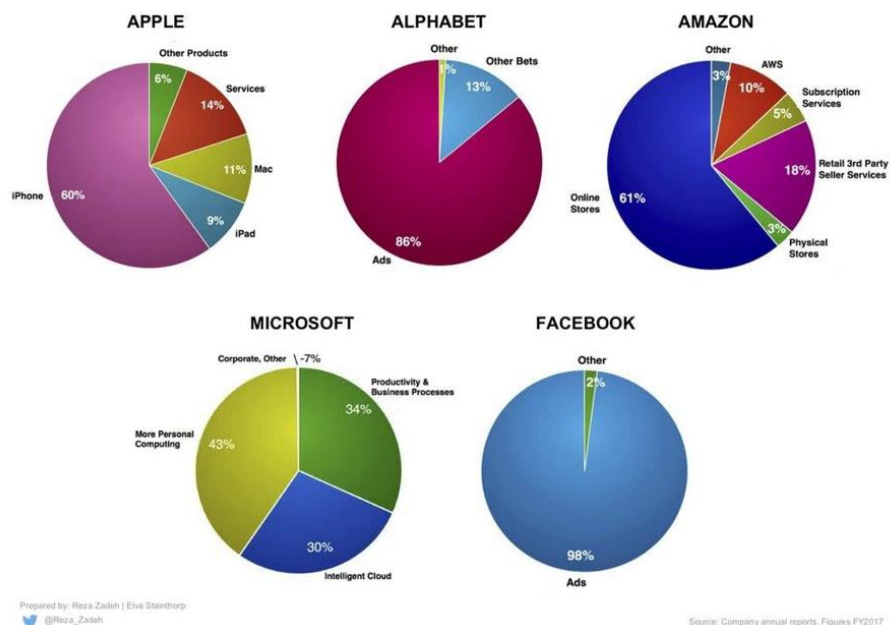


In consequences, all these examples are proving that the digital market is in "winner-takes-all" economy and it is going to continue and increase. It is quite simple, the investors prefer to put their money on the top 5 companies, it creates a bulk,

because it is sur that if the consumer has its consumption habit and is dependent of the company, it going to generate more income, so the shareholder is going to invest more money and so on. Here a graphic to illustrate the incredible growth of the GAFA (*source: Statista*):



The market shares are mostly divided between these companies. As seen with the previous definitions of “winner-takes-all”, they are cutting of the competitors because it is nearly impossible to enter in the market or to survive in it. The following graphic show the sales of each big companies:



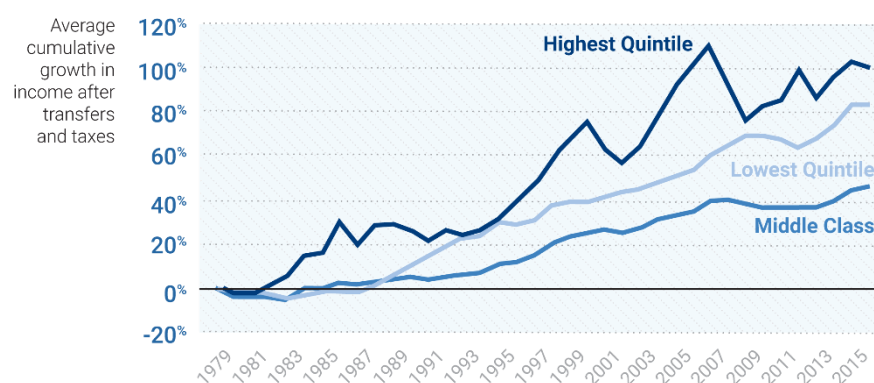
The main issue is that these companies which govern the tech and digital market are over-influential. They keep growing and are acquiring more power, as shown previously with the graphics, they control lot of platforms. They have gained so much power that, by controlling all the new and futuristic technologies, that is to say investing in these latters, they are blocking the start-ups. This can be a real illustration that we are entering or have already entered in a “winner-takes-all” system. The Global Internet Resort, in its 2019 Edition, warned about the concentration of the power on the Internet and the fact that that can be problematic for the future of the numeric.

One of the most dangers derives from the information collect. In fact, Google has accumulated lot of personnal information with its motor search, YouTube and the Voice Assistant. It is with all these data that they have monetarized their services and are present erverywhere by offering targeted ads.

Another danger is the desinformation, these big companies are also controlling the public opinion, Facebook and Google are influencing more than 70% of the circulation of informations on the Internet, especially for media.

The third danger, which has the most socially impact it is the disparity of the wealth among the population. By controlling the market parts, the wealth is detained by the few companies. It is following the scheme of the rich getting richer, by investing, as said before, in the huge companies which have the control of the market. Moreover, even if these companies are creating jobs, they also cut off twice that they have created by replacing with robots and automatized machines. Then, the middle class has been impacted.

01 Middle Class Income Falling Behind



Source: Authors' calculations. CBO Distribution of Household Income. Data for all households shown here; trends are broadly similar for working-age households.

BROOKINGS

Source: <https://www.brookings.edu/essay/a-new-contract-with-the-middle-class-money/>

To conclude, we are clearly in a liberal capitalism. But an oligopoly has been formed around the digital market. Léon Walras published in 1834 the *"Éléments d'économie politique pure"*, where he pioneered the general equilibrium theory, the beginning of the mathematization of the economy and the beginning of the neo-classism. In this theory, the market has to regulate itself, but every actor of the market should have the same resources to be functional. But in the reality, the GAFA demonstrates the exact contrary of the theory. The liberals think and state that a state intervention is primordial to regulate the market. But with the globalization and the innovations, ideally, the GAFA would represent the general equilibrium, but in the reality, with no borders and their huge influence they are taking the economy and are winning.

However, solutions exist. The government can regulate the market by increasing taxes, have a special force to examine the work tools of these giants, to understand them and to limit their powers, by also regulating their acquirees and to examine their algorithms and data. Also, a simpler prevention for the consumers, especially for the youngest generation.

Sources

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