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PROBLEMES ÉCONOMIQUES CONTEMPORAINS
ECONOMIC COMPLEXITY

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We, humans, are living in a very complex world. In this complex world there are economies which are also complex and therefore connected. This connection between the economies of the different countries of the world and the connections between humans are the result of a phenomenon: globalization. Globalization has allowed national economies to open up to a world market by increasing interdependencies between countries and thus implying the free movement of goods, capital, services, people, technologies and information. Globalization has seen certain concepts and phenomena emerge over time, so we will be interested in that of the winner-take-all economy; trying to understand why do some companies manage with slight differences in performance to generate huge differences in revenues compared to their competitors? We will try to answer the following question: are we entering in a winner-take-all economy or the winner wins the bet? Why and what can we do about it?

To answer this question, we will first try to determine the causes of this *winner-take-all economy* which has made appear superstar firms and political, social and economic dangers associated with this economy. Then we will try to find solutions to this economy where superstar firms have great power in particular by highlighting the recent emergence of a wave of different economies on a smaller scale; we will also try to establish a link between this desire to consume and create on a smaller scale and Global Warming.

What is a winner-take-all economy ? It 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. Winner-take-all economy revealed the *superstar effect* which is an economic phenomenon studied by Sherwin Rosen¹ according to which small differences in talent among the best translate into large differences in income. The superstar effect generated *superstar firms*, that is to say: super powerful firms that dominate the market. The economy of superstar firms is partly due to a large increase in technical progress and a better spread of information among firms worldwide. This better spread of information and exchange between firms is the result of globalization. The latter has encouraged global competition which has itself encouraged creativity and innovation, thus allowing companies to gain a head start over their competitors. The race for quality and prices has made it possible to improve products while keeping costs down. The free flow of labour and capital allows innovations from developed countries to be promoted around the world². All this resulted in the emergence of superstar firms which are therefore at the origin of these winner-take-all economies. Indeed, new technologies have led to a concentration of corporate power, those that succeed win everything while the losers are sidelined³. To give an example of superstar firms we can talk about of Amazon, Facebook, Google or the Chinese giant Alibaba. The emergence of these superstar firms on the world market is also the result of the Digital Revolution (especially the one that started in the year 2000). Now that these firms are more than inked into the world market, an economy of the “law of the fittest” has been put in place: implying that when new firms also want to become “superstar”, their economies becomes unstable because they are very quickly sucked by the

¹ *The Economics of Real Superstars: The Market for Rock Concerts in the Material World* Alan B. Krueger Princeton University and NBER April 12, 2004

² *Les avantages et les inconvénients de la mondialisation*, Velocityglobal (01/06/2019)

³ *FIRMES SUPERSTARS ET CONCENTRATION DU POUVOIR DES ENTREPRISES : UN PHÉNOMÈNE HORS DE CONTRÔLE ?* BNP Paribas Asset Management

biggest of the superstar firms. So I think we're in a world, a global economy, that is largely "governed" by giants, *super-powerful superstar firms* that control a large part of the economy because they make a huge profit and they capture a very large audience.

Superstar firms remain powerful because the market is too concentrated. Indeed, William Galston and Clara Hendrickson of the Brookings Institution wrote that "in 1954, in the United States, the 60% of the largest companies represented less than 20% of the GDP whereas today, the 20% of the largest companies account for more than 20% of GDP⁴. Moreover, the share paying for labour is also generally negative, which confirms that the distortion of the division of value added between several firms in most developed countries is due to the increase in the market power of the emergence of these superstar firms. Superstar firms also gain a significant market share with relatively small numbers of employees (thanks to the use of new technologies).

One of the dangers of a winner-take-all economy is the relaxation of competition regulation. The concept of competition regulation is to prevent certain undertakings from influencing the market to their advantage, mostly through cartels, which are described as illicit, or abuse of a dominant position⁵. Easing competition regulation could have a devastating effect on small firms and a very profitable effect on winners which, thanks to this, can lower prices to prevent competitors from entering the market and retain new customers or even increase margins. There is also a slightly larger variety of very big, technologically advanced companies dominating the corporate landscape.

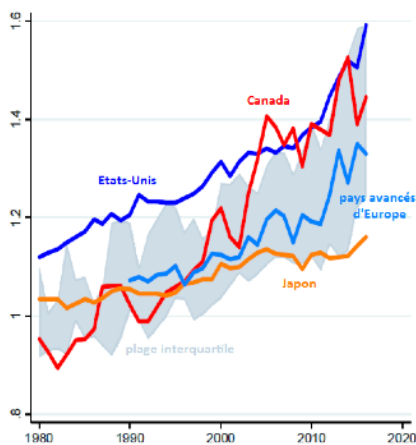


Figure : Business margins in developed countries⁶

The superstar companies and market power are undoubtedly factors that help explain the electoral upheavals and the existing political institutions may not have the means to cope with that. For example, in the past few years, the superstar firm Facebook created by Marc Zuckerberg has been the subject of suspicion by the media about the influence it can exert on political elections. Initially used as a source of «alternative» news for some, the social network Facebook is now a privileged information channel by a large majority of people. Facebook is now where a lot of the political battles are being fought⁷, for example with the creation of false accounts that exert an influence on the networks by supporting a particular candidate, users will be influenced because the more they see supporters of such and such political parties they will say that ultimately Democrats is perhaps better than Republicans and vice versa. Targeted ads are also widely used: the Cambridge Analytica scandal toured the world in 2016 and made many Internet users realize that their personal data was not only collected for an economic purpose⁷. According to the various studies on this case, the data

⁴ Les marchés sont-ils trop concentrés ? Martin Anot

⁵ La réglementation de la concurrence, ASP

⁶ Alternatives Economique, Martin Anot

⁷ Influencer une élection via Twitter et Facebook : mode d'emploi, Victor

of tens of millions of people were «stolen» and this would have had an influence on two major political events: the Brexit referendum and the US presidential election of 2016⁸.

The fact that incomes have been growing so sharply at the top has had a costly effect on the rest of the population because it's changed the spending patterns that define what people feel they need to get by in life. The more superstar firms gain market power, the more they capture a growing share of production rents and have greater bargaining power in the labour market (that is to say, a great latitude to pay workers below their productivity) and thus reduce wages.

The American writer Anand Giridharadas in his book "Winners Take All, The Elite Charade of Changing the World" defends a theory that we are entering in a golden new age in which the elite follows a win-win logic fighting for equality and justice by all means except those that threaten its position at the top. In 2019, in an interview with the Daily Show he even said that "real changes involve loss of power". This elite is actually made up of all these people who make millions and to whom most of its superstar firms belong because through their superstar firms, these winners somehow control the economy, politics and also social order issues because they create trends and thus control consumption.

Globalization is expected to continue given the complexities of today's supply chains, the interdependence of sectors and countries' dependence on trade. An end to globalization seems an unlikely scenario. In this context, the forces behind the superstar firm phenomenon, such as technological upheavals, are expected to persist, allowing larger companies to continue to expand, while reducing their costs². However, in recent years we have seen the emergence of social and solidarity economies that could be an alternative to the monopolies of these big superstar firms: this "winners-take-all" economy because the questions raised by this social and solidarity economy can only appear in an international perspective⁹. The idea (or solution?) would be to propose a long term "de-globalization" with effective tools that could have an action on the economy but also a social vision while being linked to a logic of respect for the environment. In other words: we need to create more ethical economies. Seeing on a smaller scale is already in the current dynamic because nowadays one of the most popular and effective buying motives is the issue of ethics, local, FairTrade and also SlowFashion. The social and solidarity economy is heterogeneous, it was built by the successive incorporation of autonomous organizations and networks. While they share the demand to produce differently than the market and the state do, the social and solidarity economy organisations are nonetheless divided as to whether they constitute an "alternative" economy or a "repair" economy⁹. Given the current state of the planet, I would say that this economy is now closer to a "repairing" dynamic and tends to become more and more rooted in the mores and habits of consumption, buying and production.

This new economy which is more ethical and global is different from the winner-take-all economy because it would not start from the companies' will to create added value or make profits but start from social actors who are also economic actors to progress. I think there's a strong link between seeing and thinking about the economy on a smaller scale and consuming less. Big dominant companies should focus more on defending what they have than on generating the kinds of

⁸ *It's a Winner-Take-All World, Whether You Like It or Not And a person needs to cultivate particular traits to be successful within it*, Neil Irwin

⁹ *L'économie sociale et solidaire : pour une sociologie des émergences*, Jean Louis Laville

innovations that drive economy-wide productivity growth. The rise of superstar firms is likely related to the rise of superstar cities and the hollowing out of many local economies. Recently, a change has naturally taken place to compensate for this globalization, which, although under some aspects is beneficial to many countries and economies, has a strong impact on biodiversity and in particular on Global Warming. Globalization has allowed economies to expand on a global scale, as well as production chains, and it is well known that large-scale and mass production has never been synonymous with respect for the environment, far from it. The new social and solidarity economies were imposed by necessity to preserve the planet rather than by pure capitalist will to generate money. Indeed, a company's ethics and its commitment to sustainable development in the way it produces and sells are increasingly in the spotlight: the more monopolistic business practices appear, the more they are scrutinized by states, stakeholders, regulators, the media and customers. The "ethical" aspect has therefore become a good selling point but can sometimes also be questioned as to its real foundations: is it just for companies a "check box" among a long list of processes to be able to meet the standards expected by consumers? Companies must convince the population that their considerations of the environment concerning their sales and production strategies are not just written on the packaging to satisfy the customer, it is therefore a revolution in depth that is expected of companies: today a large company must also be a responsible and ethical company. We could also think of "de-financializing" companies to make competition less monopolistic, that is to say, no longer consider the benefits as an end in itself but as a means to succeed in entering into economies where quality is more important than quantity: a concept that we find a lot in products from ethical or local chains.

In my opinion, we completely entered a winner-take-all economy or dynamic a few years ago when this concept was in full swing, I am thinking in particular of the years 2000 with the Digital Revolution and which can illustrate the growing evolution of today's superstar firms. I think we are still in a winner-take-all economy but more moderately than a few years ago, let's say it tends (I think) to certainly become less and less important but from there to stop this dynamic... I think the winner-take-all economy will not stop one day but can be replaced. That's why I deeply believe that the key to getting our world out of its capitalistic tornado is to see on a smaller scale and exercise control, restrictions on exports and imports, to control trade more so that it takes place on a smaller scale, but without impeding the development of new technologies. I think that exercising slightly more protectionist policies would be beneficial to a large part of developed countries and could allow emerging countries, whether developing or poor, to make themselves a place in the world and stop being polluted (in trade or literally) or used by the more developed ones: win-win dynamics must be fought, not embraced. We absolutely need to think as humans and not as machine that just wanted to generate profit.