

Are we entering in a Winner-Takes-All economy? Why and what can we do about it?"

In order to answer this vast question, I would like to start with a definition of what a *Winner-Takes-All* economy is. I will choose Adam Hayes' definition because it suits my analysis better. Hayes is an economist and writer of the website Investopedia, and according to him, *"A good example of a winner-takes-all market can be seen in the rise of large multinational firms, [...]. In the past, a wide variety of local stores existed within different geographic regions. Today, however, better transportation, telecommunications, and information technology systems have lifted the constraints to competition. Large [...] are able to effectively manage vast resources in order to gain an advantage over local competitors and capture a large market share in almost every segment they enter."* In other words, the Winner-Takes-All market is the place where the biggest agents and better performers meet, hogging all of the supply and demands and creating entry barriers for the outsiders.

Also, another important part of the definition is that there is a disproportion between the slightly better performance of an agent and his domination over the market.

This economic phenomenon triggers some secondary effects such as an *Oligopoly*, which occurs when a market or an industry is dominated by a small group of big firms. With less providers to supply the market, the prices of the goods and services rise, and the competition gets stiffer and new incomers will find it very difficult to penetrate the marketplace.

To help myself understand better the concept of the Winner-Takes-All economy, I asked myself, is this economy a product or a distortion of the capitalism, since we live in a global capitalist economy? But I believe that given that the political and economic concepts of *capitalism*, *communism* and *socialism* are almost never implemented the right way, this type of economy cannot be explained as a distortion because we don't really know how the raw capitalism could have turned out to be, nor we can say that it is a product of it because it is most of all a product of globalization and technology, and even more nowadays this type of economy is very sensitive to the globalization.

Globalization is the sharing of cultures, jobs, information and products all around the world. It is how we get Mexican avocados in France, and how we know an accident happened in Beirut, and how Asian geniuses can go study abroad in the best universities of the world to make important discoveries for the humanity. So, what is the link between the Winner-Takes-All economy and globalization? Globalization enables and fuels this kind of economy.

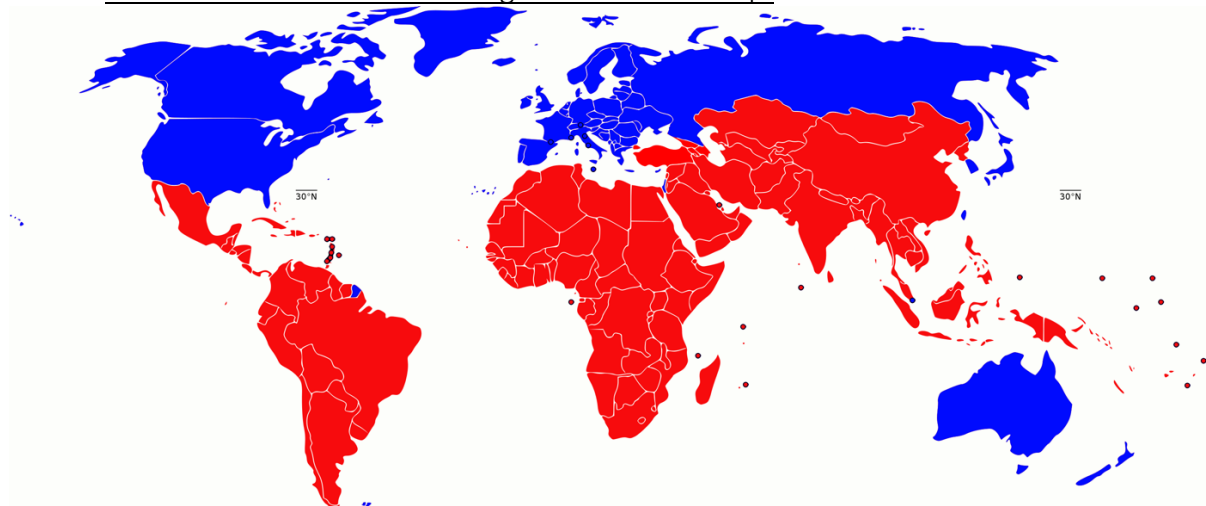
As globalization has not always been accompanied by the ideal of perfect competition as one may think, this process has not been symmetric all over the world, taking many shapes and forms depending on the context (countries, law...). Some economic regions have been forgotten due to globalization. That is where big industries take advantage of this imperfect

competition, for instance, with strategies as social dumping and delocalization which are strategies that not all the enterprises can employ.

How is the Winner-Takes-All economy perceived?

The *spatial divide*. This geographical division is something we have been seeing in recent history and it explains the division that exist between two regions, one richer and the other one poorer. For instance, we have the world's North-South division which separates the world in a socio-economic division. In it we have Western Capitalist Democracies, and the Eastern countries, considered ancient-Soviet; the north-south in America, separating the northern countries such as the United States and Canada (and very recently Mexico, being a country in development) with South-Latin America. This division created the terms First World (Western and Northern countries) and the Third World (Eastern and Southern countries). The Southern countries category reunites Africa, Latin America, the Pacific Islands and Asia.

North-South divisions according to the world's map:



Source: https://en.wikipedia.org/wiki/North%E2%80%93South_divide_in_the_World#/media/File:North_South_divide.svg

This division includes aspects such as economic, social and political... this can be explained with the Colonial history, where northern countries were the colonials and the southern their colonies.

On the economical side, the Southern countries are rich in raw materials, such as oil, metals, minerals, grains, etc... and the Northern countries, on the contrary, are rich in capital and manufacture and expertise. What often happens is that the Northern countries will buy the raw materials at a low price, they will convert them in goods and then export them to the Southern. Consequently, the southern countries usually get sucked in a *single product economy* which is not so good in a long term because of the evolution of the processes in general.

Nowadays with the past of the years, another event is occurring in the world, the rise of the Countries in Development. One of the characteristics of these so-called Countries in Development is that they are from the southern region, they are from the Third World. This phenomenon started around the 70s with notably the Asian Dragons (Hong Kong, Taiwan, South Korea and Singapore), later with other countries like India, Brazil, South Africa and China

What is happening in these countries in development is that inside the country, inside the cities, there is a significant division in society, where because of this type of winner-takes-all economy, the richest, the smartest or luckiest, and the best connected are prevailing in the market getting richer and leaving the majority (the poorer, less educated and less well communicated) immersed in their different reality, without any power to compete and rise. This is a clear effect of the presence of a Winner-Takes-All economy.

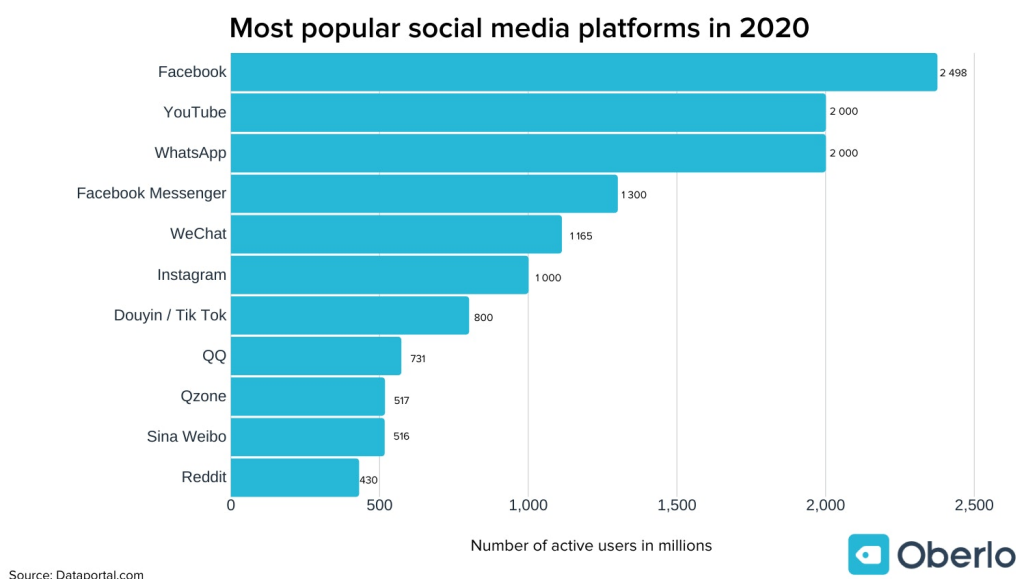
In the case of the enterprises of perishable goods we can see how the biggest and more powerful enterprises, in time, will acquire so much of the market share that they will have the power to purchase some of the smallest firms to make an even bigger and very differentiated kind of monopoly. There are around ten big enterprises that contain hundreds of the most popular brands in the whole world.

The presence of these mastodons of the market covering most of all the demands make it a lot difficult for the youngest firms to penetrate the market.

Once more, we witness the power of the winners.

Even if these firms make their possible to hide this huge advantage of them, if we take a look into the precedent image, as particulars, all of our foodstuff that we get from the supermarket come from those ten enterprises. They give us a false sense of diversity.

In the market of the social media, something similar happens, we can see in the following chart which are the most famous apps in the actuality. We can see that Facebook, being one of the pioneers is the most popular, with more than 2 million active users, followed by YouTube with 2 million users, and on the sixth place Instagram with 1 million.

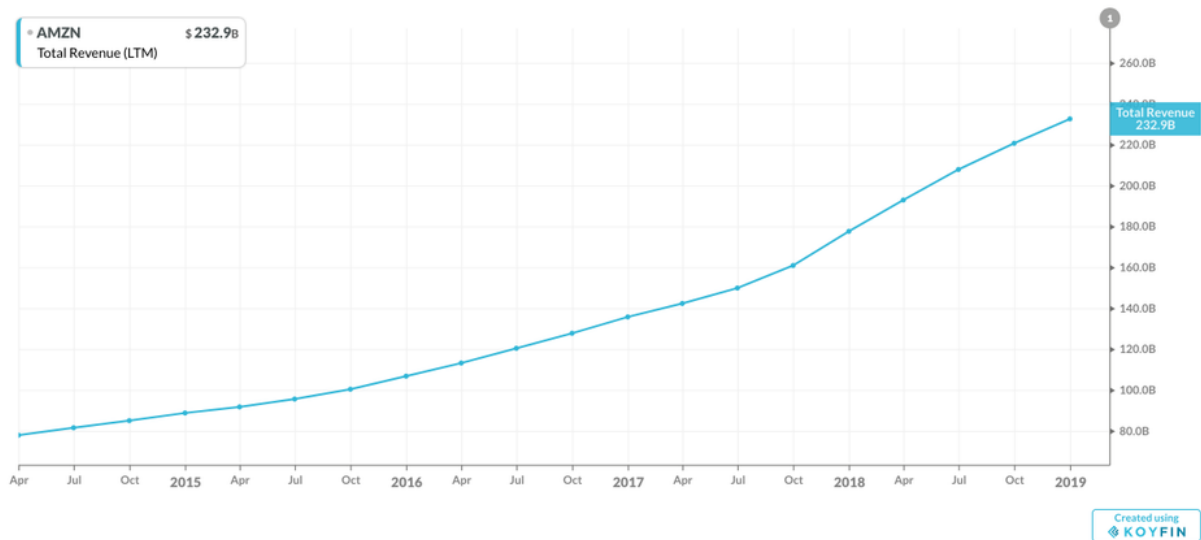


These enterprises are the biggest, and we have seen in the past 20 years the arrival of some other apps such as Snapchat, Twitter and TikTok, which had a certain popularity during some years but now they have suffered some forgottenness, and the ones that prevail are the big three. These winners hogg the market of information, personal data, and somehow, they have conquered the share preventing new apps to penetrate.

On the third, but not less important, place we have the e-commerce, with Amazon being the biggest of them all.

In the following chart we can see how Amazon's revenue has skyrocketed since 2015, being in 2015 on a bit less than 100 billion and in 2019 on 232.9 billion dollars.

Amazon's revenue evolution:



Source: <https://www.forbes.com/sites/panosmourdoukoutas/2019/02/16/how-to-compete-in-a-winner-takes-all-digital-global-economy/?sh=22ad4edfc22d>

I would now like to tackle the effect of the *snowball* which allowed the big three of the social media to obtain these advantages in the *winner-takes-all* world. For instance, at the beginning, Facebook was the pioneer in the social media market, they were at the top of the mountain where they gathered the first clients and then attracting bigger clients such as enterprises and so, creating a bigger *snowball* of the first to arrive and satisfying all of their needs leaving poor ideas of innovation for the new competitors.

What can we do about it?

One interesting way to stop in some cases the winner-takes-all economy is the *protectionism*. With the globalization came the protectionism. What is protectionism? *Protectionism refers to government policies that restrict international trade to help domestic industries. Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.* (<https://www.investopedia.com/terms/p/protectionism.asp>) an example of a country that has implemented this policy is the United States. Even if they have been in favour of the globalization, the free trade and the deregulation of markets, they also use the protectionism to take care of their young enterprises in order for them grow correctly, strong and sheltered.

Support *local businesses*. By taking some actions and changing consumers habits, supporting local businesses can be a good way to slow down the winner-takes-all economy. As a society, we have to create consciousness and start asking ourselves if the products we are buying come from a good source.

A very wise quote from Erica Cerulo and Claire Mazur, founders of *Of a Kind*, describes very good the difference between local businesses and big enterprises; “Most independent

businesses are run by people - not by boards, not by stockholders, not by algorithms. And so, you get a different kind of care and quality in their product because their work is a reflection of themselves. Instead of focusing on the next market they're expanding into or the next round of funding they're raising, they're focusing on the details and being the best, they can be."

Another important action we can implement is laws against *social dumping*. Social Dumping is practiced by big enterprises which in order to make more profit, delocalise apart, or all, of their production to countries where the labour is significantly cheaper and the rights for the employees neglected. This way the big enterprises, for instance those in the industry of fast fashion will be punished for practicing this atrocious way of making profit by exporting their production to countries where the labour is cheaper, and attention isn't being paid to these injustices.

To conclude, evidently, I believe we are living a *Winner-Takes-All* economy. Only by analysing our social, political and economic situation around the world I can apply the concept of winner-takes-all to all of these aspects (social, geopolitical and economic). Some of the consequences that we have been seeing are the big ones getting bigger and the small ones getting smaller. It is a world where just a few have all the power. Although it seems a natural process in capitalism, it can be stopped if we use the right politics and laws.

Bibliography

- *North-South divide in the world* (2000) Wikipedia the free encyclopaedia
https://en.wikipedia.org/wiki/North%E2%80%93South_divide_in_the_World
- *Winner-Takes-All Market* (2020) by Adam Hayes
<https://www.investopedia.com/terms/w/winner-takes-all-market.asp>
- *Winner-take-all market* () Wikipedia the free encyclopedia
https://en.wikipedia.org/wiki/Winner-take-all_market
- *The dangers of a “winner-take-all” economy* (2017) by Eytan Avriel
<https://www.maize.io/magazine/the-dangers-of-the-winner-takes-it-all-economy/>
- *43 reasons you should support small businesses and independent* (2016) by David Haber
<https://www.forbes.com/sites/groupthink/2016/12/01/43-reasons-you-should-support-small-and-independent-businesses/?sh=73d74ff67007>