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

Ilham Bouzerad Ganouter
Year: 2020/2021
LAEC503V Economic complexity
Teacher: **Pierre-Alexandre Balland**

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

Since the origins of society there has always been "the law of the strongest". Today, the economy and society have progressed very quickly and every day more changes are noticed but it still remains that in the market and companies the law of the strongest prevails. In the world there are always those who stand out or those who lead or earn the rest whether by intelligence, wealth or status. Those that stand out tend to have more privileges or powers than others, speaking of companies for example, large companies have more power than those that have just started. In the market the same thing happens, the bigger ones take the best part of the cake and the smaller ones keep the rest. A winner-takes-all market 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.

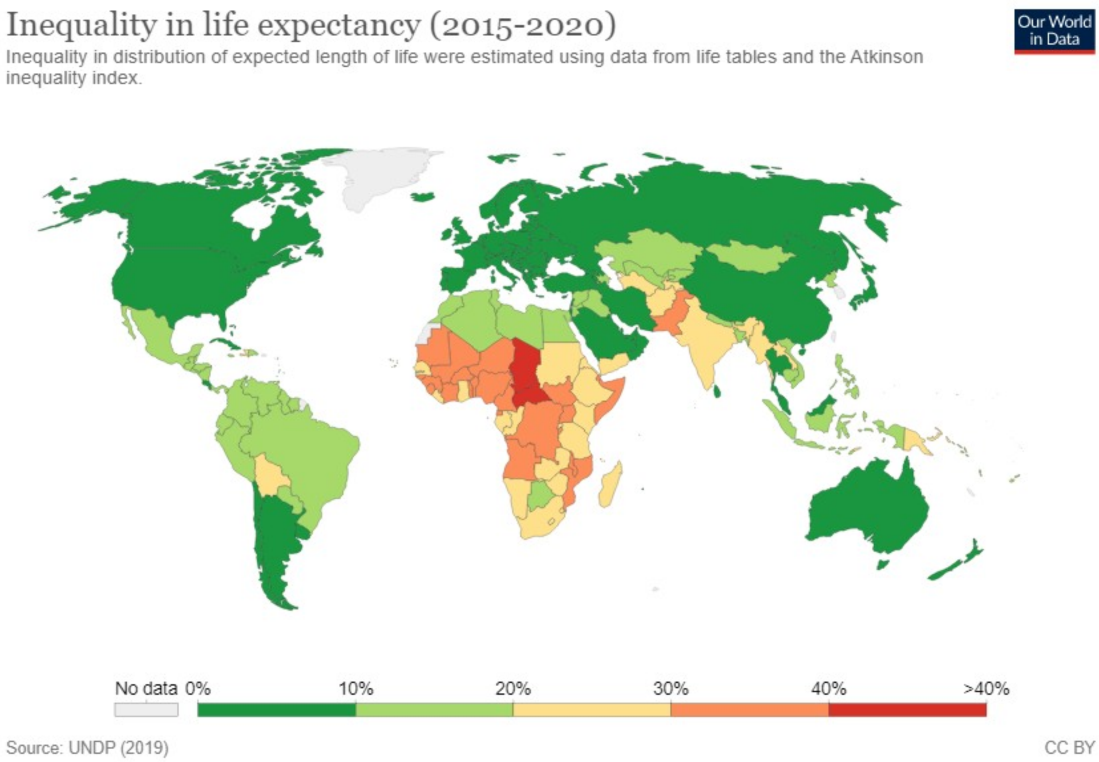
A winner-takes-all market is an economic system where competition allows the best performers to rise to the top at the expense of the losers. The ultimate end-result of a winner-takes-all market is an oligopoly, where only a small handful of large, powerful companies control a majority of market share. Stock markets and other zero-sum systems also lead to a winner-takes-all situation where the rich get richer and extends wealth inequality. Technology is reducing competition barriers in many fields of trade. In the past, local businesses had more weight and each region had a one type outstanding type of product or production than others. Today, however, better transportation, telecommunications and information technology systems have lifted the constraints to competition, and there are companies that can work in many segments or sectors in different regions and parts of the world.

After the economic crises we have suffered throughout history, society has changed, and companies and markets has also evolved. Research shows that social inequality has increased. On the whole, the explanation for this phenomenon is that the rich have the most opportunities. But this is a very simple explanation, because it is the result of many factors. The rich are the owners of wealth, and wealth itself is a source of opportunity, although not always. The humble position has made a fortune. The wealthy can also have more political influence, although there are also many examples of people who have achieved great political influence without any personal or family wealth supports. The problem is that the new digital economy as a whole is becoming a "winner takes all" game. According to the MIT Technology Review, in down town Palo Alto, almost every public bank is occupied by homeless people, who are homeless. For decades, global equality has been rising. Some countries have reduced the number of people living in extreme poverty. However, as the wealthiest people accumulate unprecedented wealth, the economic gap continues to widen. Among the industrialized countries, the United States is currently the richest country, and its share of national wealth and income is much higher than that of any other country, reaching 1%.

The study shows that the richest 1% of the population are big winners in the ever-changing global economy, increasing their income share between 1990 and 2015[1], while at the other end of the scale, the bottom 40% People’s income accounts for less than a quarter of income in all countries surveyed. The report pointed out that one of the consequences of inequality within society

1 https://ourworldindata.org/income-inequality

is the slowdown in economic growth. In an unequal society, where there are huge differences in areas such as healthcare and education, people are more likely to fall into poverty for generations. According to a 2020 study, since 1970, global income inequality has been greatly reduced. In the 2000s and 2010s, the income share of the world's poorest half of the population doubled. Two researchers claimed that due to strong economic growth in developing countries, global income inequality is decreasing. According to a report by the United Nations Department of Economic and Social Affairs in January 2020, economic inequality among countries has decreased, but between 1990 and 2015, inequality within countries has exacerbated 70% of the world's population. Increasing income inequality is the decisive challenge of our time. In advanced economies, the gap between rich and poor has reached its highest level in decades. Inequality trends in emerging markets and developing countries are more mixed. Inequality in some countries is decreasing, but inequalities in access to education, health care and funding are widespread.



The winners takes all are the big companies who are trying to show values and have a good image. Technology companies like Uber and Airbnb present themselves as empowering the poor, allowing them to drive people around or rent spare rooms. Management consultants and Wall Street brains are trying to convince the social sector that they should guide their quest for greater equality by assuming board positions and leadership positions evidence suggests that business concentration has increased considerably over the last 20 years. This is particularly true in the case of the US.

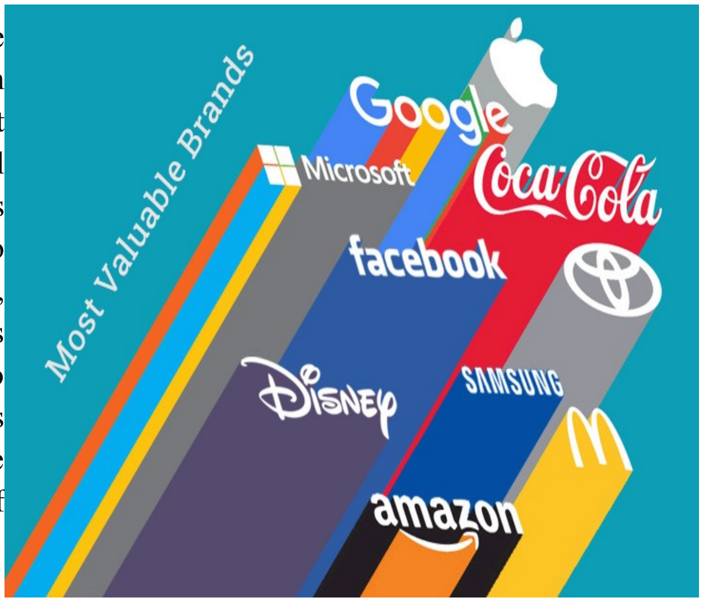
Although this phenomenon is particularly marked in knowledge-intensive sectors such as technology we are now finding superstars in an increasing number of sectors. In the time that we have characterized this type of company, one might ask what factors have driven the expansion of these super companies. In this respect, we have identified three main factors: **globalisation, new technologies and regulation.**

As globalisation has progressed and markets have become more integrated, this has made it easier for many companies to operate in multiple countries and regions. In particular, many companies have taken advantage of technological advances and the reduction of trade barriers to expand rapidly into new markets and/or to divide their operations into different countries (thus creating global value chains) and to achieve significant reductions in their production costs. This has given them a huge competitive advantage and the development of business models that are very difficult for competitors to replicate.

Technological changes are facilitating the expansion of the winner takes all phenomena to a growing number of sectors. On the one hand, technological changes have helped to reduce friction in product markets between countries. In particular, digitisation and the Internet have dramatically reduced search, communication and transport costs, especially for digital goods (whose marginal cost of reproduction and distribution is close to zero). This has made it easier for companies (especially the more digitally mature ones) to enter other markets more intensively, as they can offer their products and services to consumers in other parts of the world without the need to invest too much in physical capital. On the other hand, digitisation makes it easier to exploit the increasingly important network effects those forces that make the consumer's interest in a good or service grow as the user base increases. In this sense, superstars, especially technological ones, stand out for exploiting these effects very well in order to serve and quickly conquer global markets.

So has globalization, the integration of domestic and overseas markets. In some industries, digitalization and globalization have created a winner-take-all game in which the company that wins the game accrues almost all the pay-off. A good example is the e-commerce industry, where Amazon has achieved the size to be the winner-take-all. Then there's the search engine industry, where Google is the winner-take-all player. And the social media industry, where Facebook is the winner-take all. The people at the tops of their fields get it all. They are the winners in that particular market. And once someone is regarded as the best, they tend to retain that status.

The winners have tremendous power to dictate outcomes. Winner-take-all markets occur in many different areas. We can apply the concept to all situations which involve unequal distributions. The ten companies that possess the most wealth in the world according to Forbes are Appel, Google, Microsoft, Amazon, Facebook, Coca-Cola, Disney, Samsung, Luis Vuitton and McDonald's. It is also important to mention that the COVID-19 pandemic has impacted, for better or worse, on some of these companies. This is reflected in the decline of



some companies and the growth of others. But, These companies have more power than others in the same sector.

Why and what can we do about it? The company's leading advantages make it a monopoly in a short period of time and realize a "winner takes all" economy. This has already happened technically, but it may become more apparent in many other areas, driven by artificial intelligence. So, what can we do to solve this growing problem? Traditionally, what happens in this situation is one of two solutions. One solution is to control prices-the prices of products are regulated by the government. [2]

The second solution that the government can use is to form an antitrust-the government splits a company with too much control into several smaller companies. The most famous example is Standard Oil, which was once owned by Rockefeller, which had a 90% share of the US refining market in the early 20th century. In order to alleviate its monopoly position, the government subsequently split it into 30 different companies, which helped to correct the market failure that had existed for a century.

Another solution is to have a shared database between the different companies, for example if you have a Netflix account but you want to change to HBO or another site that offers you movies and series you will only have to open the account and you will have your data already. This would allow you to porting of data to competitors will strip the ‘winner take all’ giants of their monopolies – providing space for competitors to arise – they could, for example, offer something different such as better or more niche UI design. Such a system would create competition in the sectors we currently see none and provide opportunities for businesses stuck in sectors with decreasing amounts of opportunity. Competition creates more jobs, creates more innovation, and prevents a few companies from using unethical forces. Of course, these principles will require some form of government sanctions, and it is worth noting that this is also a solution mainly for Western capitalist democracies. However, there is no doubt that more imaginative methods are needed to provide solutions to growing problems. A "winner takes all" economy with only a few large companies dominating the industry will mark a period of dark economic history. At a time when widespread unemployment is likely, finding a solution that can slow this process is crucial.

As the latest solutions, We must be willing to name and oppose the tendencies of business that perpetuate injustice, regardless of how much it costs or who we offend. We must enable the victims to help shape the solutions. We must hold government accountable to serve the public good. And we must be alert to those subtle but crippling compromises that enable us to combine a life of wealth and privilege with the pursuit of social justice.

2 Solutions : The dangers of a "winner-take-all" economy - Maize