

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

A winner takes all market refers to an economy in which the best performers, even if the performance they present is only 1% better than the others, are able to capture a disproportionately large share of the rewards. This results in a widening of wealth disparities since these few best performers receive important amounts of income which would normally be more widely distributed between the rest. Furthermore, such economic behaviour from these large firms can be considered unfair competition.

In this essay, we will firstly determine whether or not are entering this form of economy and secondly figure out why and the ways we can prevent it from happening.

The outcome of a winner takes all market is what is called an Oligopoly. An oligopoly refers to a market structure where only a select few large firms are present with the dominating performers being named Oligopolists. These oligopolies bring with them a number of disadvantages such as the high difficulty for new start-ups or small businesses to find a spot in the market with these large and advanced companies controlling said market. Not to mention that in some cases the larger firms may end up buying the smaller ones, as is the case for the American cell phone service industry or, most of the time, exclude them by out-competing them in the marketplace. Furthermore, entry in an oligopoly is difficult as a result of the high investment barriers and strong consumer loyalty.

Oligopolies bring less choice to the consumer, as there is a limited number of sellers to buy from which could result in a scenario of choosing the lesser evil in selecting the option they desire, representing one of the bigger pitfalls of an oligopoly. This limited selection of goods and services will bring with it a very small difference in prices between the oligopolists which will in turn force the consumer to pay a high price. Furthermore, in some cases, the oligopolists present on a given market won't need to innovate and will become slothful. However, this is not always the case, Samsung and Apple, the 2 leading companies in their industry, seem to always be in a brawl with one another to innovate and surpass the other. When there are very few dominating sellers in a given market, each aware of the other, competition remains between the them since one's choice will affect the other. When Apple released their wireless earphones (Air pods), Samsung followed suit and developed their own (Galaxy buds), such has been the case for decades.

To name a few examples of current oligopolies, we can mention that 90% of the American media outlets are owned by only 6 corporations and that in the United State, there are 4 dominating cell phone service providers (Verizon, Sprint, AT&T and T-Mobile). Automobile manufacturing also fits into the category of oligopoly, with only 3 leading manufacturers in the U.S (Ford, GMC and Fiat Chrysler). Another prime example would be smartphone operating systems, where Google Android and Apple iOS rule over the rest (1). Out of these 4 examples, 3 of them refer to American industries. Oligopolies seem to be very present in the U.S. In some extreme cases, these oligopolies may later become monopolies, where only one large firm dominates the market as a whole. Some of the most well know historical cases of this phenomenon occurring would be the John D. Rockefeller's Standard Oil Company during the 19th century or the American Tobacco Company during the 20th. Oligopolies may in some cases be the result of collusion, in other words it is possible that some firms in an oligopolistic market may collude with each other on prices or on setting a profit which will maximise their levels of output. To illustrate this, if a market is non-collusive firms and firms make 3 million dollars each, they could make 8 million dollars each if they collude. Collusion has the possibility of maximising the profit for the whole industry. An example of this would be that British supermarkets such as Asda and Sainsbury's colluded with dairy suppliers to increase the price of products such as milk and butter in supermarkets during a period of low prices. Cartels can also appear in certain marketplaces; they are formal collusive agreements. An example of this is the

organization of the Petroleum Exporting Countries which is often regarded by economists as a textbook case of a cartel. However, collusion is illegal and firms can be fined by a government regulator. This usually leads to a scenario similar to that of the witch hunts, where if one firm confesses their illegal behaviour, they will be protected from prosecution (it is important to mention that organisations such as OPEC are protected by the doctrine of state immunity under international law). Collusion may, however, be hard to identify.

As these dominant multinational firms rise and prosper in their marketplaces, they gain more and more power, whether it be income, being able to set prices or having influence over the population through concepts such as consumer loyalty. This domination in their own respective fields may have effects on a much wider scale, such as politics or employment. An example of this would be Facebook, one of the giants in regards of information technology. Facebook has faced its fair share of scandals in the last decade. In 2016, Facebook was accused of redistributing user information to Cambridge Analytica for various fraudulent activities such as political advertising for that year's American presidential election. Another issue Facebook was facing scrutiny over was in regards to advertisement on the platform, as certain advertisements were proven to target certain demographics in particular. For example, Facebook advertisements regarding American taxi companies were proven to be viewed by a demographic in which 75% of the population was Afro-American. After the 2016 scandal, Mark Zuckerberg, the CEO of the platform was asked to testify in Congress and, in part, was questioned by congresswoman Alexandria Ocasio-Cortez. She relentlessly questioned Mark Zuckerberg about Facebook's controversial fact checking policies after the platform effectively refers to the fact that they would not take down lies, implying that they would not stop politicians to lie in political advertisements that appear on the website (2). One could argue that people such as Mark Zuckerberg or Jeff Bezos (CEO of Amazon) effectively gain immense power through the thriving of their companies and their domination over certain markets. The media business is a very important in regards to a democracy, however, there is a risk of its dominance which as we can see can affect the political system if left unchecked.

Technology and its advancement have an undeniable influence on oligopolies and of course on winner take all as better transportation, telecommunications and information technology systems are able to lift certain constraints on competition, allowing oligopolies to flourish. An interesting case is that of the music industry and the rise of streaming platforms replacing CDs and records. Although the sector has changed it remains an oligopoly, with the dominating streaming platforms being Apple Music, Deezer and Spotify. However, this modernized industry has a silver lining as anyone can now upload their creations and have an equal chance of making profit on the platforms. With oligopolies being so common in countries such as the United States or China it is undeniable, in my opinion, that we have not only already entered a Winner-takes-all economy but are in the initial steps of it becoming the norm if it is not regulated. Furthermore, it is quite obvious that the CEOs of these large multinational firms are forming a sort of "elite" (3) and have a big influence on the masses, even being able to meddle in politics.

Why is it that in countries such as the U.S there are more oligopolies and winner-takes-all? In America, enterprise is encouraged. Through less state intervention, it is easier for entrepreneurs, for example, to do business. However, it is also easier for people to abuse and extort that fact. As we saw previously, oligopolies -which, let us remind ourselves, is the outcome of a winner-takes-all economy- generate unfair competition that runs rampant. Regulations or lack thereof greatly influence the expansion of winner-takes-all markets, this represents one of the differences in economic realities between the U.S and the European Union. The European Union has, since its creation in 1958, always been adamant about the importance of competition especially since the creation of the European competition law which promotes the maintenance of competition in the

Single European Market. The objective of this law is to regulate anti-competitive conduct from firms and companies to prohibit them from distorting the competitive process such as preventing firms with a powerful position on the market to abuse their power, effectively ensuring they don't create cartels or monopolies. An example of the difference European laws can create is that of the cell phone service providers, as stated earlier there are 4 in the American market, however in Europe there are over 450 (4). The main reason for this is that the European Union regulations make it very difficult for companies to buy or fuse with others, which is common practise in the U.S. This effectively widens choice for consumers and ensures fair competition between the companies present on the market. This is the reasons winner-take-all markets are much less present in Europe. These regulations have stayed in place even after powerful figures such as Margret Thatcher have expressed their view that these regulations only impede on business and smother enterprise (5). In some cases of oligopoly, the industry will be broken up into many smaller firms to promote competition which represents an important strategy for any government since these smaller firms will in turn compete with each other. Historically, this strategy was utilized by the American government during the 19th century under the form of Anti-trust laws. It would be wrong to say that the American government doesn't regulate its market, the antitrust laws effectively have the same goal as the European competition law. It is used to regulate the conduct of companies to promote competition. The most important example of anti-trust laws in action would be the case of Rockefeller's Standard Oil. The company had drastically lowered its prices and bought up some of its competitors Making a huge profit and gaining total control over the industry. Thus, the company was sanctioned. However, this tool is not used to its fullest potential in the U.S as it is difficult to apply, determining when to regulate oligopolies and promoting competition seems to be the biggest question the United States has to face. The antitrust laws represent only one tool to combat disloyal competition in the market at the country's disposal. Europe on the other hand has a plethora of regulations it enforces constantly creating lasting competition and ensuring that there is no possibility of companies gaining domination over a certain market. This represents one of the main reasons why healthy competition in Europe is constantly present within the Single European Market. Furthermore, in my opinion the U.S not only lacks in regulatory tools, it doesn't use the ones at its disposal enough. This contrast between the U.S and Europe illustrates the reason winner-takes-all markets are rampant. More state intervention is needed in such countries to solve this issue.

In conclusion, I strongly believe that we have, without a doubt, not only entered a winner-takes-all economy but it is already well under way of slowly becoming a norm. If nothing is done, markets of all forms will become oligopolies or monopolies, leaving no room for smaller innovative firms or competition. These dominating companies gain enormous power not only in their own markets, but their leaders are becoming an elite group of wealthy individuals that have power over the people and their decisions. In my opinion, the answer to this is state intervention. Preventing companies from gaining such power and ensuring healthy competition should be a priority for governments across the globe and greed for economic power and influence should not.

(1): Current examples of oligopolies [https://www.investopedia.com/ask/answers/121514/what-are-some-current-examples-oligopolies.asp#:~:text=Specific%20Current%20Examples%20of%20Oligopolies,and%20News%20Corporation%20\(NWSA\).](https://www.investopedia.com/ask/answers/121514/what-are-some-current-examples-oligopolies.asp#:~:text=Specific%20Current%20Examples%20of%20Oligopolies,and%20News%20Corporation%20(NWSA).)

(2): Questioning of Mark Zuckerberg by Congresswoman Alexandra Ocasio-Cortez
<https://www.youtube.com/watch?v=8KFQx-mc2Ao>

(3): “Winners Take All” by Anand Giridharadas.

(4): Las ‘telecos’ están lejos de la tierra prometida:

https://elpais.com/economia/2019/04/17/actualidad/1555520816_595466.html

(5): “Bruges speech” by Margret Thatcher 1988 https://www.youtube.com/watch?v=D_XsSnivgNg