

**Aurore DESAMBLANC**

**20402914**

**L3 AEI**

**Are we entering in a winner-takes-all economy?**

**Why and what can we do about it?**

I understand that my knowledge is probably not enough to answer this very complicated question. That is just my humble opinion.

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

**1. Are we entering in a winner-takes-all economy?**

First of all what is a winner-takes-all economy? It is an economic term, which refers to an economy in which the big company gets all rewards, while all the others are leftovers.

The most obvious proof that we are in this economy right now could be GAFA:

Indeed Google, Amazon, Facebook and Apple are some of the biggest company in the world, yet keep growing steadily every years. (1)

Google's turnover in 2017 was \$109.65 and increase to \$136.22 billion In 2018

Amazon greets \$177, 87 billion in 2017 and \$232, 89 billion in 2018

Facebook's turnover: \$40,654 \$ billion in 2017, \$55,838 billion in 2018

Finally Apple: this company won \$229, 23 billion in 2017, and \$265, 6 billion in 2018

All those company highlights one thing: the rich gets richer. Bigger company tends to get bigger.

In addition, if one of them would get weaker: it would only be buy out, and make this other company get even stronger.

But if you are today in a winner-takes-all economy, in humanity history, we always lived in a society where 1 % shared 99% of wealth. Always. Is anyone able to give even one sustainable civilisation with

A perfect share of resources?

It seems that the winner-takes-all economy always existed in fact, but just take a new shape, to fit nowadays economy<;

It is just very recently, in the modern time, with the appearance of the middleclass that the 99% tend to decrease: (2) yet, still 1% richest people in the world own more than twice the wealth of 92% of the world's population.

## 2. Why ?

Today, the most consensual explanation of this “concentration” would rely on terms of connections, globalization, and new technologies. All Together, they would create a complex system where economic power is concentrated on few hands. (3)

The phenomenon of the “network effect” was explained in two ways by economists Katz and Shapiro.

First, direct effect of this phenomenon: it is when the number of people using a service or a good, increase the value of this good.

For example: internet. If no one uses this network, it would have no content in it, and it would be useless to have an internet connection.

Secondly, The indirect phenomenon of the network effect. It is when this service or good implies at least two groups, and their interest increases with the rise of the other group.

For example: Uber-eat (maybe this is not a very funny example according to what happens nowadays..)

Uber-eat has two types of users: restaurants and customers. The more customers using Uber-eat, the more restaurants will be interested in selling their dishes on this application.

As we can see, digitalisation plays an important role in these companies' development, using “fat tailed” distribution.

Their exponential expansions are directly linked with new technologies:

In a first hand, they allow access to the global market (digital market and development of transportation efficiency)

In a second hand, new technologies are expansive because their creation is dependant of a complex and divided knowledge (AI research, nanotech...).

Which means that only a few can produce them, while new technologies are the most profitable.

A market with no borders, a network effect that allows growing in an exponential way and resources that only a few companies can reach: that is why, today, we are witness of concentration of everything in hands of a small group.

In a less “common” way, I would like to add others (and probably more personal) theories of the question Why?

Indeed, the theory we seen together explain rather the how, Than the Why.

Why does these companies increase the gap between the rich and the poor? Why does since the beginning of our species 1% keep everything for themselves? Why does it never change?

For me, the fundamental question where all economic inequalities relied on is this one:

**Why the rich wants to get richer? Why is it so important not to share but to keep?**

Because As long as they keep this way to act, I think, it would be very complicated to change anything.

In My opinion, if individual choices are ruled by cognitive biases, like the endowment effect, the loss aversion and the impulsive research of pleasure, and If individual economic choices lead global economy, there is kind of a logic that human being was and will always be rules by a winner-take-all economy.

First, I would like to explain the “impulse” ( *trieb* )concept.

It is interesting to notice that there are no animals, in fact, no form of life, that take more than it needs. A lion will kill to eat.

However, once he is satiated he will stop eating and stop hunting. A Lion acts according to his instinct.

To understand why a human being can never stop, and will never stop to act in order to maximise his pleasure, it is important to understand why we act, what we tend for and why we do not act like animal:

Why can't we just take what we need but never stop wanting more.

Freud name them *Instinkt* and *trieb*, but their definitions were at first a little confusing, and tend to change during his career.

Now there are completely defined and clear by modern psychanalysis:

Instinct is referring as a stereotyped response to a specific stimulus, which imply a scheme that never change and that would be inherited.

Most of the time, it refers to corporal needs.

Thanks to free will, human being could free themselves from their instincts, but would always be under the control of his impulses.

In psychanalysis, an impulse ( *trieb* ) or “drive” is a strong force, always pushing into action, an energy that allow human being motor and cognitive activity, it acts in purpose to satisfied a tension, trying increase pleasure while trying to decrease displeasure.

Freud gratifies impulse as a source of all progresses, all motivations.

It cannot be satisfied (object of desire in fact does not matter, and will not satisfies the impulse, or only temporarily) yet *trieb* always give this imperious feeling, the urge to try to be satisfied or find substitute.

I find it interesting that one fundamental truth of our kind, our reason to be, is to be unsatisfied.

I would like to connect this component of our psychology to behavioural economics approaches, Especially the endowment effect and the loss aversion (5).

The endowment effect and the loss aversion are two cognitive biases.

A cognitive bias is a systematic unaware deviation in our judgment: despite all objectivity and rationality, the information would be misjudged.

The endowment effect is a cognitive bias that make us believe that a good we possessed is more valuable only because we own it.

The loss aversion is giving a loss more value than it objectively have, for the only reason that it is a loss.

It is explaining that the pain of the loss of a good is well superior to the pleasure of gaining the same good.

If we link those three theories, impulse, endowment effect and loss aversion, we can observe that:

It is on our inner nature to want, to keep and to avoid losing what is ours.

It is very painful to do the opposite.

That is why we avoid those behaviours: refuse pleasure, being moderate about our possessions and share.

According to that, belief that the world would one day approve of equal share of resources and even become more fair, seems unrealistic.

In addition, the world actual arrangement, a complex system that tend to increase ( spatial and economics) inequalities seems to be the ideal fertile ground for the rise of our natural selfish inclinations.

### 3 what can we do about it?

In order to live in a fairer place, it would mean one thing: that all people who owned the world's wealth massively accept to renounce their privileges.

Not only the richer, but also you and me, and all people of the most advanced countries.

I don't believe it would happen, not only because it is very complicated to set up but also because most people wouldn't agree with it.

As I said, I do not think that the economy by itself prevents a fairer world, but the human's nature does.

If a solution should be found, I would rather propose to invest in education: if our species can learn to be more aware of consequences of its actions, maybe we have a chance to stand above our "nature". To invest into civilization to counteract our nature.

Because I do believe that the solution is on a better understanding of ourselves and consequences of our actions, I am very cautious about the nudge concept (6).

Same author than the endowment effect and the loss aversion invented this theory.

The nudge theory offers to modify (improve ? ) the behaviour of a population by altering the environment.

This expected behaviour would be the result of unaware cognitive process.

It implies two things:

- That the creator of the nudge stands as the person who knows better than the subject of the nudge.
- It is morally acceptable to manipulate others in order to obtain a certain result.

This theory is admitted as a "paternalism libertarian".

I must say that this concept is way too morally questionable to be used, also it doesn't allow the set-up of an intellectual path to behavioural improvement.

(1)GAFA turnover :

Business Data Platform statista

<https://fr.statista.com/statistiques/565392/chiffre-d-affaires-annuel-de-google/>

(2) OXFAM data 2020 Davos New Oxfam report on global inequality

<https://www.oxfamfrance.org/communiqués-de-presse/davos-2020-nouveau-rapport-doxfam-sur-les-inegalites-mondiales/>

(3)

Emmanuel combes, French economist specialized in economic competition

<https://www.emmanuelcombe.fr/numerique-the-winner-takes-all-lopinion/>

(4)

Michael Katz and Carl Shapiro

Katz et al. 1985, p. 424 - Katz et al. 1994, p. 94

(5)

Richard Thaler

Toward a Positive Theory of Consumer Choice 1980

(6)

Richard Thaler et Cass Sunstein

Nudge : la methode douce pour inspirer la bonne decision