

# **Problèmes Economiques Contemporains (Economic Complexity)**

LAEC503V

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

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By observing the structure of the world economy, places of power and innovation, we can easily realise that we are living in a winner-takes-all economy. In other words, we notice that few people attract all resources of the world. In 2016, the NGO Oxfam stated that the richest 1% of the world owned 99% of the world's wealth<sup>1</sup>. Not only few people, but also few countries. In the T.H.E. World University Rankings, for example, U.S. universities account for 40 universities in the top 100<sup>2</sup>. From the two previous examples, we understand that wealth and knowledge are two resources that winners of this system accumulate. But if we talk about winners, then there obviously are losers in the economy. If few people or countries accumulate the world resources, it means that a majority of people are either not getting those resources, or they are losing it. Indeed, the winner-takes-all economy creates and entrenches inequalities between people and countries. Recently this year, the French NGO Secours Catholique president warned that the country will reach 10 million people living under the poverty level this year<sup>3</sup>. We also learned that French billionaires' wealth rose by 440% since 2009<sup>4</sup>.

While there is no doubt that we live in a winner takes all economic system, I do not think it is something new. Rather than entering in a winner-takes-all economy, I would say that the objective of the winner-takes-all system has changed. However, it leads to some issues and I will try to give some ideas to restrain those unwanted consequences.

Wealth, knowledge and power has always been concentrated in few people's hands. In ancient Greece, most of the city-states (Thebes, Corinth...) established oligarchies, allowing political power to a specific group of people, usually those who received education and had money. The Roman Empire, and then many monarchies worldwide were also oligarchic systems. I believe that oligarchy may be considered as a winner-takes-all system. Indeed, concentration of wealth and power is at the core of oligarchies. More importantly, these times were times of conquest wars, when military power was needed to be considered as leaders and powerhouses of the world. Subsequently, those who received a military education and had money and people under their service were able to rise an army and lead it, and therefore could win a strong place in the economic and political system. The leading families and groups (aristocrats and clergy) could also use their money to fund artists and scholars (who mostly came from the same groups). It was difficult to enter the winning groups, and this strong border restraining opportunities for a majority of people to lead the economy brought systemic inequalities and major social unrest. Through time, democratisation of education created new opportunities for people to innovate and enter in the economic system, making the border more porous.

In the modern world economy, the driving forces of the winner-takes-all system, innovation and education, has a different aim. Its objective shifted from the need of military power to a need of higher productivity and stronger economy. The main actors of the economy are now universities, research labs, and investors. Democratisation of education and the Industrial Revolution marked a major change by opening the market to new actors: everybody. Indeed, when everyone started to get primary education, many new ideas and inventions came out, as well as more skilled workers to produce them. Productivity of early industrialised countries (United Kingdom, Western Europe and the United States)

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<sup>1</sup> Oxfam says wealth of richest 1% equal to other 99% (*BBC News*, 18 January 2016)

<sup>2</sup> Times Higher Education World University Ranking 2020

<sup>3</sup> La France franchira la barre des dix millions de pauvres en 2020 selon le Secours Catholique (*Le Parisien*, 12 November 2020)

<sup>4</sup> En France, les revenus des super riches ont quintuplé en 10 ans (*SudOuest*, 09 October 2020)

substantially rose at the end of the 18<sup>th</sup> century and then skyrocketed; and little by little, industrialisation is (still) spreading worldwide. Nowadays, industrialised countries have fostered education and most people there have access to higher education. From the Industrial Revolution to the Glorious Thirty in France, we understand that periods of economic growth merge with periods of democratisation of education.

The driving force of innovation is complexity. The more complex the world becomes, the easier it is to invent new products or services. Technological progress has widened the spectrum of possibility in terms of innovation. The invention of the computer, and then Internet, for instance, permitted many people to develop new products or services, such as software or social medias, and it also created new jobs (web designers, web communication manager) and new ways of selling (e-commerce). Furthermore, modern fast transports gave companies the opportunity to get the resources they need for production faster, from wherever in the world, and it gave people the ability to move where they believe their skills will be fully exploited. Thus, people are very likely to move where they can get the best education, in order to enlarge their opportunities of innovation and accumulate wealth. In the same way, firms are getting closer to universities, creating knowledge hubs as the Silicon Valley in the United States, where universities, research labs and investors work together to innovate. Thus, the more you specialise in some fields of education, the more you will need to collaborate with other people to share your knowledge and create something together. The latest innovations (smartphones, solar panels, etc.) were not created by one person but rather by a group of specialists who shared their expertise in digital technologies, battery, camera, information and communication technologies (ICT), etc. Open innovation, i.e. companies joining their strength in terms of technology, wealth and capacities, also allows many new products and services to emerge.

But with the massive entry of people in a globalised market, competition between people, companies and countries has become more tough, and if more people found opportunities to innovate and make money, even more people were left behind. More precisely, education and industrialisation enhanced life conditions and social rank of many people, creating what we call the middle class, but only few people find the opportunity to join today's elite.

Some countries are getting many benefits from the need in a complex world. Indeed, as many people understood that they needed a good education to innovate and win in today's economic system, competition between top universities is really high. As mentioned earlier, 40 of the top 100 universities were in the U.S. (11 in the U.K., 7 in Germany and Netherlands). The U.S. are also dominating the economic market, with 34 companies in the 50 largest companies in the world by market capitalisation (including Microsoft, Apple, Amazon and Facebook) in May 2020<sup>5</sup>. Along with the European Union and Japan, the U.S. were part of the Triad countries, the 3 main powerhouses in the 1980s. Yet globalisation is deeply changing this hierarchy toward a multipolar world, with newly industrialised countries like China, Brazil, or India being the birthplace of many recent innovative companies. However, profound inequalities remain between countries, with the well-known North-South divide, with Northern countries economy developing by grabbing resources from Southern countries (which are then weakened). According to the World Social Report 2020 (United Nations), "the absolute gap between

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<sup>5</sup> Top compagnies in the world by market capitalization (*Statista*, May 2020)

the mean per capita incomes of high- and low-income countries increased from about \$27,600 in 1990 to over \$42,800 in 2018”<sup>6</sup>.

But competition and inequalities do not simply happen between countries but also inside every country at the national level. During my year studying abroad in Japan, I learned how important cramming schools were, and I saw many high schoolers attending cram school in the hope of being accepted in Japan’s top universities. In this highly competitive system, the main principle is not to be good, but to be the best. Japan went even further in the competition with their job-hunting system (*shūkatsu*), which consists in putting applicants together and see which ones stand out. In the end, few Japanese students manage to enter top universities and companies. Thus, competition induced by the winner-takes-all economy leads to inequalities in terms of opportunities. In order to get the best job opportunities, you need to go to the best high-school, then the best universities.

Countries with major inequalities inside their society are facing growing social unrest. The yellow vest movement in France, or the Black Lives Matter movement are significative of unequal societies, where people get upset of the growing concentration of knowledge and wealth in the hand of an elite. Most riots and social unrest are happening at the national or local level, and I’m convinced that the best way to ensure social peace is to implement a certain amount of social welfare policies. Thus, the winner-takes-all economy is fostering inequalities in share of wealth and opportunities at the national level, and the gap between the rich and the poor is becoming wider. In order to reduce this gap, progressive taxation, i.e. taxing and redistributing fairly the wealth after it was produced, would be useful. However, taxing companies which want to innovate would obviously slow down technological progress and national growth. To avoid this, I think that companies’ taxation should be higher for non-innovative companies (e.g.: retailers), while companies which invest a strong amount of their profits in R&D section should get tax cuts. Young firms and start-ups should also be strengthened by countries’ policies, as they are very inventive and produce cutting-edge products. They also “account only for 21% of total employment, but are responsible for 47% of job creation” (OECD, 2016)<sup>7</sup>. This way, companies will have incentives to innovate, to create new jobs, and companies which don’t participate in this mechanism will share their wealth with the poorest part of the population. This money can also be used by the state to fund education and higher education for all so that people could take less risks opening their own business after graduation. Becoming a leader of the ecological transition could also become a major variable for countries and companies to get a stronger competitive advantage. For instance, top companies such as Toyota, a leader in the automobile industry, appended ecological issue to their development strategy and introduced in 2015 Toyota Environmental Challenge 2050<sup>8</sup>.

At the international level though, imposing any sort of taxation policies is hardly possible. However, I think international trade agreements and unions can foster national economies. Indeed, countries of such trade unions (European Union, ASEAN, MERCOSUR, etc.) tend to narrow borders between them. Such partnerships help countries to share their strengths, whether it is knowledge, wealth, working force or primary resources, to join their forces and to innovate and progress together. For example, in Asia, China could develop itself partially by allocating their workforce in producing products for wealthier countries, and by assimilating new technologies given by them.

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<sup>6</sup> World Social Report 2020 (*United Nations*, January 2020) p.22

<sup>7</sup> “No Country for Young Firms?”, Policy Note, Directorate for Science, Technology and Innovation Policy Note, *OECD*, June 2016.

<sup>8</sup> Environmental Report 2020, *Toyota Motor Corporation*, October 2020 (p.8)

Economic progress rests on people, companies and countries capacities of innovation and knowledge. Recently the world has become more connected and complex, to make innovation easier. But along with growing economy, the winner-takes-all economic system brings growing inequalities in shares of wealth and opportunities. Inequalities and social unrest can have terrible consequences on a country's economy. Therefore, we cannot neglect this aspect of the economic system. In this paper, I presented some solutions that can be taken at the national and international level in order to protect the economy and social peace. Bigger states have proven useful in reducing inequalities, although its control should be focused on ways that won't undermine innovation. Union of countries and companies should also be good opportunities for the economy to grow.

Nevertheless, considering the uncertainty of our future concerning the access to natural resources, the ageing population in many industrialised countries, and the growing distrust, from the population of industrialised countries, in the necessity of technological progress (e.g.: growing question on the meaning of work in an exceedingly productive world – bullshit jobs), world's need for technological innovation might end being called into question, and national economies and industries might seek innovation directed toward social and ecological progress along with economic progress.

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