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Winner-takes-all economy

Amazon, Google or Facebook are familiar names for everyone, it is not surprising, knowing that these enterprises gather most of the global market share. Amazon is known as the giant of e-commerce, Google is leader in search engine industry and Facebook for social media industry. We can consider these three well-known companies as winner-take-all players in the three different industries mentioned. The power of this companies is actually extremely big and they take a dominant role in the global market.

Their position in the market can be explained by the fact that they are organizations with great innovation capabilities, whose products and services are much better than their competitors, and make them the standard. This is mainly due to new technologies.

When one or a few competent companies own a large part of the market, they can control the price of goods at their convenience, this creates a barrier for the entry of other firms or even causes the exit of existing ones, negatively impacting consumers and other agents in the market.

The current market outlook is characterized by the concentrated wealth in a relatively small number of multinational firms. We may therefore wonder, are we entering in a winner takes-all economy? What can we do about it?

A winner takes-all economy is described as an economic system where competition allows the best performers to rise to the top at the expense of the losers. In this situation, the market is mainly controlled by a few companies and the role of all others is nearly insignificant compared to them. This gives them more strength to buy other competitors, make customers more dependent on them, make it difficult to legislate against them, or even have access to very advantageous financial conditions.

We can take the example of Amazon, the first US e-commerce retailer, that offers all kind of products, from personal products to even professional ones, and with a distinctive service, known for its fastness and for its access to every part of the world. When the multinational was born, it only sold books online. As the use of the internet grew, Amazon decided to include more products to its list. New technologies have allowed an incredible expansion of the company and they have triggered an unlimited growth, to the extent that it is now one of the most important online retailers worldwide.

What are the assets that have allowed this companies to reach the top, and once they're in the top, to become even bigger?

The technology is today an asset that allows the growth of companies without barriers worldwide. This can be explained by the fact that today, technology systems permit better transportation, telecommunications and information flaws.

These dominant companies are characterized by strong innovation and a strategic use of technologies.
In the past it was usual to find local stores specialized in certain products, nowadays people find it easier to just browse on the internet, click and have any product at their house the day after. Big multinationals expand in detriment of local stores, who struggle to survive the fight

against big companies. In fact, local commerce and specialized stores are nearly inexistent, as consumers know that nowadays even the most particular product can be bought online.

What are the consequences of a winner takes-all economy?

This tendency entails significant effects on the market, namely economic repercussions. One of the main visible consequences is the fact that it extends wealth inequality as it makes it difficult for small enterprises to reach a valuable position in the market, and therefore an important part of the market, that otherwise would be more equally distributed, so it concentrates wealth in a very few agents. As they get bigger, other companies get even smaller, and their growth opportunity shrinks.

Wealth inequality is triggered by the increasing market concentration and concentration of wealth and economic power in the hands of a relatively small number of multinational companies and rich individuals. In fact, market concentration is one of the main drivers of disparities around the world.

One of the main problem caused by this system is that market competition becomes nearly inexistent, taking into account that it is very difficult for minor firms to compete with the dominant shareholders, who play a very significant role in the world's economy.

What's more, once a firm reaches a significant role in the market, and it is seen as a potential threat by the main players, the latter uses any strategy to fight this threat, leading to the acquisition of the potential rival.

Competition is required for a well-going market, being not only good for consumers, which benefit from a wide range of different product opportunities but also for the market itself. Competition promotes business innovation in order to reach a better position in the market and also a better distribution of market shares.

Moreover, as competition grows, so does job opportunity. It creates jobs and provides people with a choice of employers and work places. So, a concentrated market leads to a shortage of opportunities.

In many cases, political decisions have strengthened this wealth inequality. In many countries, fiscal and regulatory policies have not only lead to the weakening of the public sector, but they have also allowed an unprecedented accumulation of individual wealth and increasing market concentration.

Another problem that arises mainly from huge companies is tax evasion. It is something as simple as not paying the corresponding taxes, and something so serious that it puts at risk the access to basic services for all citizens. Large companies implement complex tax planning structures to avoid their outlay. Tax havens are an instrument for tax evasion: tax havens are regions with little or no taxation and no control or transparency over transactions, which allows increased profits. They prevent states from increasing collection and investment in social policies and helping people in different ways, since large fortunes and companies use offshore companies based in these paradises to avoid paying taxes.

What are the possible solutions to this emerging problem?

The existing national and international competition and anti-monopoly laws have evidently been not enough to prevent large company mergers and slow down the massive growth of financial groups, that have an ever-increasing influence on the global economy.

There is an emerging need of applying fiscal and regulatory policies that respond to the massive accumulation of individual wealth, and also ensure that resources are more equally distributed, and therefore fight against wealth disparities. These new measures need to limit the growth of multinational companies in order to ensure market competition.

According to the theories of pure and perfect competition, a market must have a large number of consumers and a large number of suppliers. Thus, to avoid a monopoly situation it is necessary to apply regulatory measures in order to control big multinationals and their dominant role in order to ensure competition and innovation.
It seems improbable that capitalism's ability to reinvent and innovate will eventually take care of the tech giant's market dominance, mainly due to the powerful combination of winner-take-all factors.

For example, Google, leader in search, is extremely difficult to challenge. In order to replace this default search engine, the new one would have to offer a noticeably better experience to attract users, big enough to break their Googling habit. This would take a lot of time and would entail a huge cost, with little chance of success.

It is therefore unlikely that tech giants such as Google, Amazon or Facebook lose its global core market dominance anytime soon even if an eclipse by a rival with a significant share of a new potentially bigger market is always a possibility.

Reactions to this phenomenon contrast among Europe and the US. European antitrust enactment centers around guaranteeing fair competition while The United States focuses on whether market strength prompts evident customer hurt. Since the prevailing tech stages are all US-based, this is probably going to create conflict between Europe and the US later on.

Nowadays, we all benefit every day from the tech giants' services, but, it is not deniable that we need new and better antitrust regulation to deal with issues arising from their market dominance.

First and foremost, competition authorities need to look closely at the likely effects of the huge power of this companies. Besides the consequences mentioned earlier (low competition, wealth disparities, tax evasion…), the power of big tech also comes with other important downsides: fake news, fraud, interference in elections, to name some. Even if the challenge of the tech companies' self-reinforcing market dominance is only set to grow, it is necessary to apply new regulation in order to protect less powerful agents and ensure fair competition and fair distribution of market dominance, otherwise, in some years global market will be distributed in the hands of very few and inequalities will be triggered. If this trend keeps increasing, the economy will soon be based in a "winner-takes-all" system, that could end up in a monopolistic system, with all the consequences that this entails.