



## The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us

*Robert H. Frank, Philip J. Cook*

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Disney chairman Michael Eisner topped the 1993 **Business Week** chart of America's highest-paid executives, his \$203 million in earnings roughly 10,000 times that of the lowest paid Disney employee. During the last two decades, the top one percent of U.S. earners captured more than 40 percent of the country's total earnings growth, one of the largest shifts any society has endured without a revolution or military defeat. Robert H. Frank and Philip J. Cook argue that behind this shift lies the spread of "winner-take-all markets"—markets in which small differences in performance give rise to enormous differences in reward. Long familiar in sports and entertainment, this payoff pattern has increasingly permeated law, finance, fashion, publishing, and other fields. The result: in addition to the growing gap between rich and poor, we see important professions like teaching and engineering in aching need of more talent. This relentless emphasis on coming out on top—the best-selling book, the blockbuster film, the Super Bowl winner—has molded our discourse in ways that many find deeply troubling.

## **The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us Details**

Date : Published September 1st 1996 by Penguin Books (first published 1995)

ISBN : 9780140259957

Author : Robert H. Frank , Philip J. Cook

Format : Paperback 288 pages

Genre : Economics, Sociology, Business, Nonfiction, Culture, Society, Social



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## **From Reader Review The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us for online ebook**

### **Lanmy says**

Too lengthy and not straight to the point. The whole book can be crammed into an article from which I could get the author's idea way faster than going through all these pages.

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### **Scott Ford says**

What's the adage: Go with the number two guy, 'cause he'll work harder than number one. The authors do good work in discussing weaknesses in a unregulated economy.

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### **John says**

Standard economic theory tells us that free markets will efficiently balance supply and demand. But what if "supply" or "demand" are relative to the behavior of others in the market? Then the market outcome which is 'optimal' for each individual may not be optimal for society as a whole. This book shows how, with a wide variety of examples.

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### **Edwin Seno says**

The authors have given an interesting outlook to winner-take-all markets that I've always thought reflected the intrinsic functioning of the human civilization. I am a firm believer in capitalism and free markets so initially, I adversely found the book 'Marxist' in nature. But as I read it, I opened up to the remedies offered for a more equitable society. I at times found the illustrations very out-dated but I understand the book was published in 1995. Anyway, a very good read for anyone with an open mind.

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### **Cyrus Carter says**

A very good and reasoned account of why we let the top people rake in such ludicrous amounts. Time to change ourselves a bit, perhaps?

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### **Mark Oppenlander says**

I hesitate to call something "important." Like many adjectives in our sensationalized media-circus of a world, I think that the word "important" has been overused. However, I don't think I can get away without using that term here. This book really draws attention to some concepts that we should all be aware of and that we

should all probably still be talking about, even though the book first came out in 1995.

I found this title on a list of "best business books" provided to me by a colleague. Business books are often quite trendy, so I wasn't sure what new ideas I might discover in a book almost 20 years old. What I found was a fascinating discussion by two economists, Dr. Robert Frank and Dr. Philip Cook, on what they describe as "winner-take-all markets," those places in our society where many compete but only one person (or a small handful) takes home all the reward while most go home with nothing. To give you a sense of what they're talking about, consider that the examples they use come from athletics, politics, entertainment and the media, elite schools, top law firms and more. These are places where the number of competitors for economic or other prizes far exceeds the normal distribution curve for competitors based on the number of spaces available for "winners." In other words, like playing the lottery, people compete in these markets even when the odds are heavily stacked against them.

The authors analysis of what causes these winner-take-all markets, what keeps them going and how they are driving increasing income inequality in the US is riveting stuff. Their predictions for increased inequality and more global hyper-competition in the future seem particularly prescient, considering that we can now look back on 18 years of more of the same and see how right they were. It makes this book's message all the more urgent now.

And make no mistake, there is a message here. Drs. Frank and Cook are capitalists and free-market economists, but their analysis is that the rise and continued growth of various winner-take-all markets is not in the best interest of society overall. These markets create inefficient competition, use up resources that don't create additional value and deprive us all of much needed resources in other sectors of the economy. With that being the case, the learned authors make a few modest suggestions of things that could be done to help curb the worst excesses of these markets. Sadly, almost none of their suggestions have been implemented and most seem further away than ever in the year 2013.

If you're interested in making markets work better, the efficient use of global resources or income inequality, I encourage you to read this book. My colleague was right: This is one of the best business and economics books I have read. And it is important.

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### **Ian Simon says**

Changed my thinking substantially. This book contains a criminally underacknowledged argument for why the winner-take-all dynamic is bad. Essentially, the winner-take-all segment of the economy (say, American Idol) steals resources from the non-winner-take-all segment (say, pizzerias).

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### **John Hoag says**

A belated thank-you to Ed Rosenberg for recommending this

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### **Sean Chick says**

One of the only books to address this issue in the 1990s. Now it is hot button issue. I wish it was better

written but otherwise I liked it.

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### **Jonathan Williams says**

While I found the topic interesting and informative, the content structure was heavily flawed and seemed to have no reasonable organization. Structure aside, Philip J. Cook and Robert H. Frank effectively described winner-take-all markets and how they are formed.

My biggest takeaway is that industries that favor comparative achievement (similar to an incumbent in a political party) prize the top very heavily despite the talented efforts of the many. A classic example is commonly found during the Olympics. While the fastest man alive may beat his opponent by a few milliseconds, he is often given the greatest financial rewards in endorsements and prizes. This has carried over from the entertainment industry to even fields such as fashion/law...

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### **Doc Opp says**

According to Frank and Cook, there are two types of economic systems. In the standard system a worker's rewards are proportional to the amount that he produces. So, if Rachel makes 10% more widgets than I do, and we're paid by the widget, then Rachel makes a 10% higher salary than I do. This is the system that almost all of economics is concerned with. A second system is a "winner take all" market. In this system, the person who is the most productive makes all of the profit (or in more complex versions, a disproportionate share of the profit), and the rest get nearly nothing. So, if Rachel is a 10% better poker player than I am, at the end of the day she has the entire pot of chips.

Frank and Cook argue two central theses: 1) The standard economic models do not work for winner take all markets and 2) Winner take all markets are increasingly prevalent in today's society. The conjunction of these points leads to a set of policy recommendations that differ from what comes from more prominent economic theory. I'm going to basically outline their logic below:

Before modern communications and transportation systems, if there were a great singer in Los Angeles, nobody in New York could hear her sing. And so there was a need for singers in both cities, as well as every other city in the country. And so singers around the country could make a modest living. But in today's economy, if the best singer in the country is in LA, then because of CD stores and radio and the internet, everybody in the country can listen to that one singer. If that LA singer is 10% better than her rivals (or even 1% better), then everybody will choose to buy her CDs as opposed to her rivals' CDs, and with an expanded audience she will make a tremendous fortune. Meanwhile, all the other singers who are losing their audience to the one LA singer will earn a lot less. Thus, we have moved from a standard market to a winner take all market.

Frank and Cook argue that while this is most evident in domains like sports and arts, the shift is occurring across all areas of society. A corporation that sells a product that is slightly better than its rivals in an international market, can sell millions more units and make a corresponding profit. Meanwhile, having a product that is only slightly inferior can lead to a catastrophic loss of market share. Thus, having the best CEO, or engineers, or marketing staff becomes critical, and therefore firms are willing to pay a premium for the best, which leads to a pseudo winner take all market.

The authors discuss how these sorts of markets, in addition to increasing inequality in society, lead to inefficiencies for society. These inefficiencies come in two forms. First, as the potential rewards for the winner increase, a disproportionate number of people are drawn to work in the "winner take all domain" because of the distortions in incentives for the winner. This leads to fewer productive members of society, and more losers which are a cost/burden to societies (because in a winner take all market, everybody who isn't the winner gets too small a share of the pot to live off of).

Second, the desire to be the best increases because of the incentive structure, which leads to positional arms races. A person who spends money on publicity gets a slight edge over their competitors. So everybody has to spend on publicity, lest they have a competitive disadvantage. But if everybody is spending on publicity (which cancels) they all end up in relative position where they started, minus the budget for publicity. Thus, this commons dilemma leads to a great deal of wasteful spending for no apparent good.

The authors give a host of examples and case studies to support their argument. And in the end, they provide a number of policy recommendations for dealing with winner take all societies:

- 1) Tax policy - Contrary to traditional economic theory, increasing taxes on the rich in a winner take all market will actually improve productivity and efficiency. The reason is that by reducing the pot that the winner gets, the incentive structures become less distorted. So, fewer people who have no chance of winning enter the market. These people will instead go on to other occupations, and will produce things for society rather than require support from society. This has the nice added benefit of increasing government revenue and thus reducing deficits.
- 2) Tort reform - The authors argue that large legal settlements are a form of winner take all market, and because of that disproportionately draws some of the most intelligent people in society into a profession that typically does little to create wealth for society, but rather moves existing wealth to different parties. The authors suggest capping and taxing awards to reduce this incentive structure. They also suggest that states should stop subsidizing law schools because it increases the number of players in the game which they argue is deleterious to society.
- 3) Antitrust Policy - The NFL is able to reduce the winner take all nature of professional football through the institution of a salary cap that constrains the salaries of the best players. In other words, cartels can occasionally have good effects on society by reducing winner take all pressures. Similarly, the authors argue that while there are sometimes important anti-trust regulations, that antitrust policies can often have the incidental effect of creating winner take all markets and causing serious harm to society. The authors urge serious reconsideration about anti-trust regulation and evaluation of specific anti-trust actions using winner take all models of economics.

To quote the authors "The conventional wisdom portrays a world of agonizing trade-offs. We reject this pessimistic conclusion, for, as we have seen, a greater tax burden on the economy's biggest winners would not only help set our financial house in order but would also help steer our most talented citizens to more productive tasks....the redeeming feature of the modern winner-take-all society is that many of the same policies that promote equality also promote economic growth."

I'm not sure I agree with everything the authors argue. In fact, I disagree with a fair amount. However, I found their discussion extremely thought provoking, and a useful perspective on policy debates. I'm not sure how much I would recommend the book itself - it is fairly redundant and while the central premise is interesting a lot of the derivations thereof are best described as sketchy. That said, if you happen to come across the book, reading the first 3 chapters and the last chapter might be worthwhile.

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### **Estelle says**

Even a fair amount of examples used in this book are too old, (like John Elway and Micheal Jordan), the book is full of insights.

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### **Ed says**

I've read this book 5 times. Although the thesis isn't new, its application to contemporary phenomena is illuminative.

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### **Joseph says**

this book explores the age old prisoner's dilemma in many fields and how, if left unchecked, could lead to lose-lose situation. Relative performance vs absolute performance is the key.

however it's still very hard to change, given the inertia and payoff (from an individual perspective). I thought what could be discussed more is what an individual could possibly do in order to break away from this syndrome. And hopefully the effort will somehow snowball into noticeable change that can benefit society as a whole.

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### **Eric\_W says**

Robert Frank and Philip J. Cook have written a most interesting book that explains why the salary of a typical American executive today is 120 times that of the average manufacturing worker when it was 35 times that in 1974; why "the incomes of the top 1 percent more than doubled in real terms between 1979 and 1989, a period during which the median income was roughly stable and in which the bottom 20 percent saw their income actually fall by 10 percent."

The authors reject the arguments that these horrifying statistics result from productivity increases, or the failure of those at the bottom to take advantage of opportunities, lack of education (Robert Reich), or genetic inferiority (Charles Murray). They blame what they call the "Star System," which has become common in many fields (O.J. Simpson's attorneys, corporation raiding of big name executives, etc.); a "reward structure common in entertainment and sports - where thousands compete for a handful of prizes at the top .... "

They argue this distorts society by diverting talented people into competitions almost all will lose. "Winner-Take-All markets attract too many contestants in part because of a common human frailty with respect to gambling - namely, our tendency to overestimate our chances of winning," i.e., the "Lake Wobegon Effect," where all the men are good-looking and all the children are above-average.

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