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The Profit Paradox: How Thriving Firms Threaten the Future of Work

by **Jan Eeckhout**

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At the very beginning of the book, after a long and detailed personal story about how the author managed to fix a bug in his smart phone¹, there are two main insights. The first one is that the share of labour in added value in the USA has dropped to 58 percent since 1980, after being consistently at two thirds for decades. The second one is that on average, jobs today last one year longer than in the 1980s, i.e. people switch jobs less frequently – labour market dynamism has declined. Taking these insights into account, according to the author, “The main aim of this book is to go on a quest to discover why work has lost its luster” (p. 13).

The author refers to the usual suspects for such an outcome in the past four decades: remarkable technological change, globalisation, and changing demographics. But, according to the author, the real villain is – market power. The author claims that the rise of technological change enabled firms to exert more market power. “Firms that opened up new markets not only were the first to enter new markets, but the technology also allowed them to build on the first-mover advantage to maintain market dominance” (p. 15). The problem with this insight is straightforward: technological change enables and facilitates Schumpeterian creative destruction. It destroys old and opens new markets; it destroys old dominant structures, like railways and fixed line telephony, and crates new structures, not necessarily dominant. Economic history demonstrated that the process of continuous destruction has been ongoing since the First Industrial Revolution, so it is not enough to deny it by quoting a brilliant fiction writer (George Orwell 2008), pointing out that “the trouble with competitions is that somebody wins them”. For market power to be a universal and convincing explanation for ostensible demise of the work, the author should provide ample evidence to support that conjecture. The author is aware of this: “The point of this book is to document that the evolution of work we have seen in the past forty years is the result of a rise in market power” (p. 19). Considering how complex and intertwined modern economies

¹ Unfortunately for the reader, this is not the only personal story in the book. What follows is, among others, a story of the birth of the author’s daughter, an excellent escargot restaurant in Lille and the author’s attitude towards seat belts in aircrafts and its transformation.

are and that there is a substantial number of factors on which economic outcomes depend in the modern day, the reader is sceptical from the very beginning of the book that enough evidence will be provided for a sole culprit of the ostensible decline of work – being it market power or something else. Nonetheless, one should keep an open mind.

Part I of the book (“The Origins of Market Power”) focuses on the indicted culprit. The author specifies that the market power is “the ability of a firm to raise prices above costs and generate excess profits to compensate for investment, risk, and innovation” (p. 24). The problem with this definition is not only that it does not specify which costs, marginal or average, but also that it does not include the risk-adjusted opportunity costs of capital in the costs, since they should be compensated from the excess profit. With such an approach, it is obvious that no investment whatsoever would have taken place without market power, i.e. without “excess profits”. One way or the other, what is the evidence of rising market power in the US economy? The author focuses on the dynamic of the markups, i.e. the ratio of price and marginal costs since, as demonstrated by Jan De Loecker, Jan Eeckhout, and Gabriel Unger (2020, p. 575), the average markup in the US has increased from 1.21 in 1980 to 1.54 in 2019². The author, based on the insights of De Loecker and Eeckhout (2018, p. 6), claims that the increase of market power, is not specific to the US, but rather is a global phenomenon and it is not specific only to high-tech industries. For the author, “The most shocking observation is that the median markup, [...] the markup of the firm exactly in the middle of the distribution, has remained unchanged. This tells us that for at least half of the firms, there has been no rise in markups at all!” (p. 31). Obviously, firms, whatever the industry in question is, are heterogenous. Some have recorded substantial increases of the markups, some none at all.

The author recognises that the markup, as the difference between price and marginal cost, does not provide all the information regarding market power, because it takes into account only variable costs, neglecting fixed costs, i.e. the source of economy of scale. The reader with elementary knowledge of microeconomics is aware that with marginal costs pricing (i.e. if the price equals marginal costs), the production with fixed costs is not sustainable because of financial losses, as those costs are not covered. The higher the fixed costs, as a share of total cost, the greater the required market power (specified as the gap between the price and marginal costs) for production to be sustainable. The author admits that the share of fixed costs has been increasing over the last 40 years, that the share of fixed costs varies substantially between firms, but he generally plays down the role of fixed costs as the explanation for the substantial increase of the markups. His evidence of rather negligible fixed costs is that it is not only markups that have gone up, but also the profit rates: from 1-2 percent of sales in 1980 to 7-8 percent in 2016³. The problem with this approach is that the

² Although it is not disclosed in the book, these are results for corporations, i.e. publicly traded (listed) joint-stock companies only (De Loecker, Eeckhout, and Unger 2020), not for all the firms, i.e. for the entire US economy. It is reasonable to assume that the average increase of markups for all firms, however measured, would have been lower.

³ The graph presented in the book demonstrates the huge volatility of this indicator, which is basically the ratio between price and average costs, though it is obviously increasing over time.

appropriate profit rate is the rate of return, i.e. the ratio of profit to the stock of (invested) capital – not sales. Only a profit rate of this kind is relevant for inference of economic profit, one that is above the opportunity costs of capital, i.e. monopoly profit, which corresponds to the market power and lack of competition. Strangely, data on rate of returns and (risk-adjusted) opportunity costs of capital is somehow missing from the book⁴.

There is a ubiquitous contradiction regarding fixed costs in the book. On the one hand, the author plays down their role, and for obvious reasons: if fixed costs are substantial then the high markups are not evidence of declining competition, market power as its consequence and boosting profits, i.e. the lack of competition as his explanation of the increased share of capital in the GDP and the decreased labour share is not convincing, as the high markups are just sufficient to cover large fixed costs. On the other hand, the author subscribes to the view that substantial fixed costs in advanced technology industries, due to the upfront investments in new technologies of dominant firms, creates barriers to entry (comparing all that to the US railroad industry in the late 19th century), lessens competition and provides grounds for market power and economic profits, i.e. an increased share of capital in the GDP and a decreased labour share. Hence the reader is puzzled by the author's treatment of fixed costs.

The other contradiction throughout the book is that, on the one hand, the author claims that dominant market players, those with substantial market power, due to the technological progress and their superior technology, managed to decrease their costs and provided goods and services to customers at lower prices and with higher quality. There is no doubt that the consumers' surplus has increased with the advent of these technologically advanced corporations. On the other hand, the author frequently complains throughout the book about high prices, specifically about companies charging high prices due to their market dominance, i.e. their market power. Eeckhout tries to reconcile these two findings by claiming that due to the technical progress and increased efficiencies "Prices are lower, but they could have been even lower had there been more surviving competitors and had those that did survive been more dominant" (p. 42). The problem with this insight is that increased efficiencies are at least to some extents due to the economy of scale, stemming from substantial fixed costs due to investments in new technologies and intangible assets, and more surviving competitors would inevitably mean smaller firms on average and less materialised economy of scale across the industry and economy, hence increasing average costs and *ceteris paribus* market prices. The author acknowledges ubiquitous economy of scale in modern US, analysing the "economies of scale from supply, from demand, and from learning" (p. 44). Taking this into account, it is highly uncertain – perhaps even improbable – whether increased competitive pressure (competitive constraints in the EU competition law parlance) produced by the surviving competitors would be a countervailing force strong enough to offset that price increase due to higher average costs. One way or the other, the more competitors there are, perhaps, but not necessarily⁵, the more

⁴ The problem with markups and profit rates is that they are calculated based on the accounting data of publicly traded companies, and it has been pointed out (Susanto Basu 2019) that there are substantial methodological problems of such approach.

⁵ More competitors in the market does not necessarily mean more competition and more competitive

competitive constraints there are on the one hand, but also less economic efficiency due to economy of scale on the other – this is clearly a trade-off.

It is strange that a highly trained academic economist disregards trade-offs in considering the issues that his book focuses on. The other strange thing is that the author completely disregards that in the in modern economies firms simultaneously operate different technologies. Though the author points out that the results, i.e. the profit rates – however they may be calculated – differ from firm to firm and that the gap has been increasing, the technology heterogeneity is neglected. When firms are endowed with different technologies and different cost functions – and there is ample evidence about that provided in the book – those firms are heterogeneous from the standpoint of efficiency, meaning that they have different average and marginal cost. The price level then must be at least at the level of the average costs (including the cost of capital) of the least efficient incumbent firm. If this is taking place in a competitive market environment (without monopoly or dominance in the competition law sense), the more efficient firms (effectively all the firms except the least efficient one) appropriate economic profit, i.e. rent. The source of that economic rent is not the lack of competition but rather technological superiority of the firms that appropriate it. This is Industrial Organisation 101 (Dennis W. Carlton and Jeffrey M. Perloff 2015). This finding also vividly demonstrates that the existence of economic profit (rent), i.e. positive gap between the price and average/marginal costs, technically labelled as market power, is not sufficient for concluding that competition is impaired, i.e. that there is a market dominance and monopoly power, whose abuse inevitable generates allocative inefficiency (deadweight loss)⁶. In short, it is wrong to conclude that competition is impaired solely based on information on the market power, i.e. difference between price and marginal costs.

The situation of heterogenous firms, described in the book by various examples from the US economy, demonstrates that what is important in the economy close to the technological frontier are barriers to (superior) technology, not barriers to entry. This enables firms with inferior technology to still operate in their relevant markets.

constraints (pressure) to the incumbent firms. William J. Baumol (2002) demonstrated that in industries with substantial fixed costs, such as costs of research and development, it is oligopolistic competition (a competition of a few firms with differentiated products), both price and non-price competition, that produces the most effective competitive constraints. Most of the contemporary high-tech manufacturing operates in very competitive (global) oligopolistic markets. It is strange that the author does not mention these markets, such as the Boeing-Airbus duopoly in the long-haul commercial aircraft market, with only two competitors in that global relevant product market, nonetheless featuring undisputed cut-throat competition between them.

⁶ The terminological problem with the technical term “market power” dates back to its introduction into economics (Abba P. Lerner 1934), with the assumption that there are no fixed costs and that all firms are homogenous, i.e. that there is only one available technology. Not only is it assumed that there are no fixed costs, but also that average costs are constant and hence (because of no fixed costs) inevitably equal to the marginal cost. In this framework, the only way for prices to be above the marginal costs is impaired competition, making the firm the price maker, rather than the price taker. In this framework, with a firm facing residual demand that is not perfectly price elastic, the difference between price and marginal cost is a proper proxy of economic profit due to the monopoly – the measure of monopoly power and the deadweight loss and economic rent it creates. The introduction of fixed costs and economy of scale that followed compromises the concept of market power as a proper measure of monopoly power, specifically as a measure to what extent the competition is impaired.

From the rich insights provided in the book, the reader has no second thought about the technological superiority of two giants, Walmart and Amazon, as their technology is, for various reasons, not available to their competitors. Nonetheless, as the author points out “Today Walmart and Amazon jointly account for 15 percent of [the US] retail sales” (p. 46). Only 15 percent! This is hardly evidence to support the “winner-takes-all” hypothesis, so frequently mentioned in the book as the source of monopolies. These 15 percent are rather evidence that different technologies coexist in the retail industry and that superior technology does not necessarily completely crowd out the inferior one. The caveat is though that big firms, with superior technology and materialised economies of scale, enjoys economic rents not because the competition is impaired, but because of their efficiency, competitiveness, and lower average costs compared with competitors. In short, big firms are not necessarily villains⁷.

If there is monopoly in a relevant (product) market, its abuse and associated economic profit generate rent for the firm. If such a monopoly is created by patent protection, the appropriated rent is a source for recuperating the investments in research and development that generated the new technology that is protected by the patent. Without these rents there will be no incentives for research and development and accordingly no technological progress. The author is right in claiming that these monopolies create deadweight loss, and that society would be better off with a diffusion of the new technology, basically the information about the technology that is a public good. The only problem is that without patent protection, i.e. without such a legal monopoly, there will be no incentive for firms to invest in research and development, meaning lean technological progress and a slow rise of productivity, if any. The author recognises these incentives, but still laments about the deadweight loss throughout the book, as if there is no opportunity cost in every institutional arrangement. Or as if there are no contributions to economic theory regarding the optimal length of patent (Richard J. Gilbert and Carl Shapiro 1990), considering the countervailing effects of increasing the time span of a monopoly created by the patent protection.

Although the author confuses market power with the decline of competition in the US product markets, i.e. impeded competition in this country, there are, according to evidence provided in the book, many sources of market power: substantial fixed costs, intensive investments in research and development, technological progress and innovations based on those investments, investment in intangible assets, differentiated products, intellectual property rights protection, as well as legal barriers to entry and exclusionary or exploitative abuse of dominance, but it is only the latter that is anti-competitive. His insights that “The real problem is that dominant firms are pervasive across the entire economy and in all sectors” (p. 101) and that Schumpeterian creative destruction virtually stopped in the US are not supported by a shred of evidence in the book.

⁷ As demonstrated by Naomi R. Lamoreaux (2019), there is a long intellectual tradition in the US (since Justice Louis Brandeis and his contribution *A Course of Bigness* in 1914) of considering big firms as the source of economic and political evil. The symbol of big bad firm at the beginning of the 20th century was *Standard Oil*. At the beginning of the 21st century and the advent of self-proclaimed “New Brandeisians” these are *Google* and *Amazon* (Lina M. Khan 2017).

Part II of the book (“The Harmful Consequences of Market Power”) focuses on the consequences of product market power to the labour market. The author claims that omnipresent product market power declines wages. Nonetheless, the heterogeneity of the firms is precisely the reason why the causality from market power to lower wages and declining labour share in the GDP, suggested by the author, is not compelling. His reasoning is based on the assumption that all the recorded market power is evidence of deadweight loss, meaning that the output of the firms is lower compared to the output in perfect competition, i.e. with marginal costs pricing. The ostensibly ubiquitous market power, due to the impaired competition, causes the declined demand for labour due to reduced output, and that is the reason why equilibrium wages are lower. As already suggested, only a fraction of market power is due to impaired competition, and the author’s reasoning is applicable only in those cases.

Nonetheless, the author claims “Even if we gave all of the profits to the workers they would still be worse off than under competitive markets because dominant firms sell and produce less than they could [...] And the magnitude of those losses is enormous – they are several times larger than the loss in output due to uncontrolled inflation, for example” (pp. 74-75). As to the first claim, it is true and trivial because the existence of deadweight loss means that the loss of consumers’ surplus is bigger than the monopoly profit, otherwise there would be no allocative inefficiency. As to the second claim, there is no estimate in the book of the magnitude of the consumers’ surplus loss, e.g. as a percentage of the GDP. So, the reader simply does not know what “enormous” means.

According to the author, market power is the reason for increased income inequality. The causality goes from market power to excess profits and that in turn increases capital income, enlarging overall income inequality, as most people do not have capital income, or if they do – it is negligible. It is just the few who benefit from the capital income increase. Nonetheless, the increase in labour income inequality, due to the empirically undisputable rise of top managers’ salaries, is explained by the author again – by market power. According to the author, market power creates excessive profits for the corporations, hence they can afford to pay enormous salaries to the top managers. The author points out “in its search for a CEO, Apple, the most profitable company in the world, would pay whatever it takes to hire the best executive available” (p. 97). The reader is not convinced of this mechanism, as the labour markets work in another way: the CEO would be paid according to the expected value of his/her marginal product. This is not to say that labour markets operate perfectly, as monopsonies have been identified in the US, especially in certain local labour markets (Eric A. Posner 2021), but that is market power in labour markets and not product market power – and the two are not related. There is no evidence of causality from market power in the product market to market power in the labour market.

The author refers to the recent contribution by Anne Case and Angus Deaton (2020) on rising mortality of middle-aged white Americans without a college education as evidence supporting his market power theme. “As a result of this rise in inequality, a substantial number of people of this generation are worse off than their parents due to stagnant wages and rising inequality. Since the rise of market power leads to a rise in inequality, and inequality leads to the rise in mortality due to suicide and

drug abuse, it is not implausible that market power has a hand in the rise in mortality of this generation” (p. 160). Nothing can be more wrong than this conclusion. What Case and Ditton (2020) convincingly demonstrated in their comprehensive research is that globalisation and technological progress (automatization) destroyed well-paid and well-respected manufacturing jobs of middle-class people in the US. It is the decline of wages, plunge of social status, increased uncertainty and drop in individual welfare that led to adverse health outcomes and deaths of despair. It has nothing to do whatever with income inequality or market power, so dear to the author as a universal explanation of every evil that has been occurring in the USA in the past several decades.

Part III of the book (“The Future of Work and Finding Solutions”), after so many utterly unnecessary deviations and distraction, so typical for this book, finally provides policy recommendations. It is difficult to dispute the author’s claim: “To create pro-competitive regulation in circumstances where the free market fails to be competitive is the objective of antitrust institutions” (p. 237). The problem is that in the book Eeckhout builds his case for “pro-competitive” regulation using the example of the Boeing 737 MAX’s poor safety record – due to design failures and lack of regulatory oversight of its introduction into operation. Nonetheless, the Boeing 737 MAX case is not about the lack of “pro-competitive” regulation, but about the failure of airline safety regulation, predominantly the one enforced by the FAA (The US Federal Aviation Authority). Ironically, Boeing’s haste to introduce new engines onto the old aircraft, which produced the design failure, can be attributed to the strong competitive pressures from Airbus and the estimate of Boeing’s management that the company is lagging behind its rival in the narrow-body commercial aircraft segment.

The author’s first recommendation regarding the competition enhancing environment is about IP protection, i.e. patent protection of the innovation. The author is aware that society needs to reward those who make the investments, but he has second thoughts about whether creating an artificial monopoly is the best way to give such rewards? He suggests cash prizes as incentives in exchange for making new technology freely available, following such a prize offered by the Royal Navy in 1707 as a reward for a practical method of determining longitude at sea. The prize scheme set by government is hardly a good substitute for a patent. This places the government at the helm of innovation, a Gosplan of technological progress, removing from the scene innovating entrepreneurs who take into account customer preferences. The cash prizes would, the reader assumes, be too few and focus on the wrong projects, considering dynamic efficiency and dynamic welfare maximisation.

Furthermore, it is highly probable that the prize amount would be either too low or too high, having in mind that the government has rather limited information on the investment required for successful research and development in each industry. The author claims: “Imagine if the World Health Organization or the US Food and Drug Administration had awarded a prize to the pharmaceutical company that first came up with the COVID-19 vaccine. We would have had dozens, if not hundreds, of producers simultaneously manufacturing vaccines in December 2020” (p. 241). The point is not how many producers would have manufacturing vaccines, but whether there would have been a vaccine with the government prize set too low. Furthermore, in such an environment there would only one vaccine, not a set of different types of vaccines and

only *ex post* it can be assessed which is the best, especially considering the coronavirus mutations. Finally, to move away from big stories such as COVID-19 vaccine, the Manhattan project and “We choose to go to the Moon”, it has been small, incremental innovations, made by entrepreneurs, that made human life so much easier in the last two centuries, without any involvement of the government – other than patent protection. The issue of limited diffusion of new technology can be solved through compulsory licencing, a rather well-developed mechanism of competition law.

The next recommendation focusing on market power is, according to the author, to tax a firm’s profits, as this raises revenues that can be distributed to those who suffer from market power. Notwithstanding how that transfer would be accomplished, as the author does not provide any clue, he is positive that there would be no allocative effect. “If Apple makes \$100 billion in profits by selling iPhones at \$1,200 each, then even if the corporate tax rate goes from 10 percent to 80 percent, Apple will still sell the iPhone at \$1,200 – even with higher taxes it wants to set a price that generates the highest possible profits” (p. 243). The problem is that Apple, like any other firm, maximises *net* profit, hence an increase in the corporate tax rate is effectively an increase in the firm’s marginal costs. That would inevitably, under conditions of a negative slope of the residual demand curve, i.e. residual demand that is not perfectly price elastic, decrease equilibrium output, increase equilibrium price, enlarge deadweight loss, and aggravate allocative efficiency. In short, corporate profit tax increase would make things worse.

The next batch of recommendations is related to competition law and its enforcement, predominantly in the USA, i.e. about antitrust in the American parlance, although those recommendations are relevant to all advanced economies.

First, “We need to go beyond the impact of market power on consumer welfare. The competition authority must also take into account the impact on all stakeholders – workers, suppliers, competitors – everyone with something to gain or lose” (p. 260). Well, focusing on consumer welfare standard enables the competition authority to make consistent (whether right or wrong) decisions, aimed at increasing consumer welfare, specified as aggregate consumers’ surplus. Including other criteria as standard would inevitably produce confusion and contradictions in decision makers. For example, increasing workers’ wages generates an increase in costs and product prices *ceteris paribus*, meaning that consumer welfare would be hurt. It is unclear how competition authorities should evaluate the impact on competitors irrespectively of the consumer surplus. Of course, inefficient firms will lose should they be driven out of the market, but that is consistent precisely with consumer welfare maximisation. If competition authorities protect inefficient competitors, then they violate the consumer welfare standard. The author fails to provide guidelines for the enforcement of his multi standard recommendation⁸.

⁸ Contrary to this recommendation for the competition law aim (standard), Gilbert (2020) recommends that the aim of the competition law and policy in advanced economies should be maximising innovation. This is a single aim/standard concept that can be considered as the dynamic consumer welfare standard, i.e. consumer welfare not focusing on the price of existing products, but on the price/quality ratio and the introduction of the new products, either by horizontal or vertical diversification.

Second, “We need to incorporate the economy-wide implications of market power, not just the impact at the firm level” (p. 260). It is difficult for the reader to understand this recommendation. Is it different from the first one and what is the difference? The author’s comments that economy-wide problems can only be resolved by reining in market power directly – not just for one firm, but for all firms in the economy – is not very helpful. Market power is a feature of a single firm and can be dealt with, if necessary, at that exact firm.

The third recommendation is related to merger review, as the author considers mergers the most important and undesirable source of market power, giving the example of AB InBev, a brewing industry giant, as a showcase of all the adverse effects on competition and economic efficiency. Accordingly, the recommendation is to make merger control more stringent in two ways. First, the burden of prove should be reversed: instead of competition authorities being responsible for demonstrating that a given merger is anti-competitive in order to block it, “We should invert the burden of proof: companies cannot merge unless they can provide evidence that the merger is beneficial” (p. 262). The second recommendation is that “In addition to reversing the burden of proof, all mergers must be approved” (p. 262), contrary to the existing merger notification thresholds, requiring that only select mergers should be notified and reviewed/approved.

The first and second recommendation considered together mean that there would be much fewer mergers, because the shift of burden would be revised and that would substantially increase the costs for the merging parties as well as the likelihood of the merger, meaning less expected returns from such a capital transaction. This means that these two recommendations, considered together, would inevitably be merger deterrent. The problem is that a vast majority of deterred mergers would be efficiency enhancing, i.e. those mergers would increase consumer welfare. An additional problem is that hostile takeover would be hindered, and these capital transactions are indispensable as a mechanism of disciplining managers of corporations, therefore solving the problem of principal-agent relations.

The second merger review recommendation – that all mergers must be approved – is perhaps aimed at preventing killer acquisitions, situations in which a dominant firm purchases a new, small, and promising firm, fearing that this firm might become a significant competitor in due course⁹. Perhaps this could be achieved, but the cost in terms of the administrative burden on the competition authorities would be immense. The average annual number of mergers in the USA in the past ten years (2011-2020) was 20,762 (Statista 2021)¹⁰. That means that the workload of the competition authorities would be around 80 cases per a workday. Presently, with the notification thresholds, on average less 10 percent of the mergers are reported and reviewed (Shapiro 2019). The recommendation that all the mergers be reviewed, despite the already described merger deterrent effect, would immensely increase with the staff analysing merger cases that are *prima facie* pro-competitive. What of waste of resources.

⁹ In the words of Facebook CEO Mark Zuckerberg, in the e-mail from 2008: “It is better to buy than compete”. The FTC used that e-mail in a 2020 complaint against Facebook.

¹⁰ Statista. 2021. Number of Merger and Acquisition Deals in the United States from 2000 to 2020. <https://www.statista.com/statistics/914665/number-of-ma-deals-usa/> (accessed December 08, 2021).

The author is aware of the increased administrative burden on the competition authorities as the consequence of his recommendations and generally he thinks that there should be a “strong hand” dealing with the protection of competition in the US, so he proposes the creation a Federal Competition Authority that would be modelled, from the author’s mouth, along the existing Federal Reserve System, endowed with 23,000 employees, instead of the combined 2,000-strong workforce of the incumbent competition authorities (the FTC and the Antitrust Division of the DoJ). With all the ideas regarding a centralised and powerful, not “toothless” competition authority, the reader wonders whether the model for the new agency is the Department of Homeland Security rather than the Fed. After all, the author implicitly subscribes to Orwell’s (2008) prophecy, quoted in the book, that “free capitalism necessarily leads to monopoly”. But in his attempt to fight market power to protect the competition he also subscribes to a rather Orwellian way of dealing with that power: “Big Antitrust Brother is watching you”!

The fourth recommendation is about technological giants as “we need to embrace the impact of technological change on scale and large firms. Competition for competition’s sake by artificially keeping alive inefficient firms [...] is not helpful. Similarly, splitting up highly efficient companies is wasting all the potential of scale in order to tackle abuse of dominance” (p. 261). Instead, the suggested solution is interoperability. Although the author does not provide how it should be implemented, i.e. what kind of regulation should be introduced, the reader welcomes some fresh air.

At the very end of the recommendations, the Fed link appears, as the author claims that: “a lot of market power currently resides in financial markets and banks. While there are many specific features to financial markets, they should be regulated through the lens of competition” (p. 273). Somehow, the author misses an important point – that there is an inherent contradiction between stability of financial markets and competition within them, which is well established in economic literature (Xavier Vives 2016). Again, as usually in the real economic world, there is a trade-off: more competition means less financial stability and *vice versa*. It would have been fair of the author to have informed the reader about that trade-off.

Taking into account how relevant the topic of the book is and high academic reputation of the author, the reader is somewhat frustrated as the high expectations have not been met. There are many unsubstantiated claims and very little food for thought after reading the contribution. Perhaps, one is the question: Why did the author, who is a highly respected academic economist and who has published pieces on the topic of the book in top international academic journals, do such a poor job in this case? The question remains open.

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