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Reviews

The Great Reversal: How America Gave Up on Free Markets
Thomas Philippon
Cambridge: Belknap Press, 2019 (368 pages)

Economists generally agree that free markets undergirded by the rule of law, the enforcement of property rights, and a stable currency have increased global prosperity and dramatically curtailed extreme poverty. Since the fall of the Berlin Wall, Eastern European and other countries sought to imitate the United States by improving the conditions under which entrepreneurial creativity and innovation can propel economic growth. In *The Great Reversal: How America Gave Up on Free Markets*, Thomas Philippon marshals evidence to demonstrate that America has forsaken many principles and policies that led to its success, and in doing so has become less prosperous, exacerbated income inequality, and harmed its economic future. To renew its prospects, America must fully re-embrace free markets by fostering healthy competition and shunning rent-seeking crony capitalism.

Philippon, a French economist, validates the intuition of members of the US middle class who suspect they have not experienced much economic gain in the recent past. Since arriving in the United States in 1999, Philippon has observed that the cost of certain economic essentials (such as mobile phone service) has risen relative to income and that America's broadband access per capita is languishing relative to other developed nations. Are these examples of a broader trend, and if so, what is the reason for such tepid middle-class gains? Philippon examines the data and builds a case for three basic claims: (1) US markets have become less competitive domestically; (2) policy choices—influenced by US firms' rent-seeking and lobbying behavior—are the chief explanation for this decline;

and (3) the practical outcome is “lower wages, lower investment, lower productivity, lower growth, and more inequality” (10).

Part 1 examines the chief culprit: declining competition. Philippon explains why *competition* (as opposed to merely free trade) is so vital for economic prosperity: competition “destroys rents and is therefore the enemy of rent seekers” whereas the benefits of the latter “are more difficult to share among citizens” (23, 24). Industries and firms may initially be competitive, but they do not always remain so. Philippon examines the evolution of market concentration in particular US industries and firms, considers the efficiency tradeoffs involved, and persuasively demonstrates that increasing US industry concentration has been accompanied by decreasing domestic competition. The telltale sign: market power has deterred the free entry of firms. But of course, the question remains: Have US consumers and laborers been harmed by reduced competition? Philippon answers that question in part 2 by comparing the US experience to that of Europe.

While the United States saw increased market concentration and reduced competition in the past twenty years, the European Union (EU) has not. Data indicate that the labor share of income in the United States has fallen while prices have increased more rapidly in the United States than in Europe. Compared to their European counterparts then, American workers have become relatively worse off in the past couple decades, and “[t]he evidence strongly suggests that increasing concentration in the US is responsible for an excessive increase in prices by at least 8 percent over the past seventeen years” (123). What are the contributing factors to this increased concentration and reduced competition? Part 3 connects the dots. Here Philippon argues that the EU has largely adopted the playbook that had made America the leader in economic freedom and progress: by improving the ease of starting a business, reducing obstacles to investment, and removing barriers to entry that have fostered competition. In contrast, there has been more lobbying and greater political campaign expenditures in the United States relative to Europe, which contributes to conditions for firms to successfully engage in rent-seeking behavior. Philippon also compares the relative impacts of revolving doors between industry and regulatory bureaucracy. Although revolving doors can facilitate beneficial exchanges of information, they can also result in regulatory capture that favors firms (by muting competition) at the expense of the consumer. Philippon argues that while the benefits derived from revolving doors are the same in the United States and Europe, “European *competition* authorities do not seem to be subject to the same revolving-door effect” and thus the negative elements of revolving doors are less severe in Europe (201).

Philippon wraps up his critique in part 4 by focusing on particular US industries: two characterized by increasing market concentration and anemic market entry (finance and health care) and one characterized by low employment levels relative to market capitalization, namely, “the stars of the internet economy” (240). The economic gains made in these industries do not appear to be broadly dispersed. While Philippon praises the benefits of Google, Amazon, Facebook, Apple, and Microsoft (GAFAM), he also recommends tempering their dominance through regulatory mandates such as platform interoperability and data portability (275). Such features would enable users to carry their data and network elsewhere, lower the costs of switching platforms, and thereby increase competition among the Big Tech and social media companies to attract and retain users. Indeed, competition is thwarted by various forms of market power, and Philippon's final chapter addresses how monopsony impacts wage growth and inequality.

The book is wide-ranging in scope and occasionally tedious in its use of data, but Philippon's presentation of the evidence is both persuasive and disconcerting. The policies, investment decisions, and rent-seeking behaviors that have led to a lack of competition cannot be easily unwound. Furthermore, it matters. According to his estimates, "the lack of competition has deprived American workers of $1.5 trillion of income … [the equivalent of] six full years of growth" (293). Thankfully, Philippon recommends three principles around which public policy could be shaped to improve things going forward (294–96). First, remove impediments to free entry of new firms. Second, acknowledge the need for regulatory trial and error (regulators do not always get it right the first time). Finally, establish policies that protect data privacy, promote transparency, and safeguard data ownership. For at least two decades, the United States has either allowed market competition to wane, or pursued policies that have hindered it. For America to regain its reputation for free markets, it must reverse course by discouraging rent-seeking behavior and embracing competition once again.

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The Price of Bread: Regulating the Market in the Dutch Republic

Jan de Vries

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In *The Wealth of Nations*, Adam Smith famously criticized governors of the Dutch Republic for not sufficiently taking into account the deleterious effects of excise taxes on necessary goods. Smith reasoned that because taxes on bread and similar basic goods increase the cost of living, they entail higher wages, thereby ruining manufacturers' economic profitability. Smith's ideas on the connections among excises, wages, and the manufacturing industry inspired the Dutch Patriots, a liberal political movement at the end of the eighteenth century, to fight against the institutions of the *ancien régime* and eventually found the Batavian Republic. Subsequent to eliminating the guilds, the Patriots also planned on abolishing excise taxes. However, the 1801 constitution of the Batavian Republic stipulated that taxes were to remain as before, as the finance minister, Isaac Gogel, meanwhile sought not only to maintain but even extend the reach of the bread tax and the milling excise. After all, as Adam Smith had further observed in *The Wealth of Nations*, although such taxes raise the price of subsistence, and consequently the wages of labor, they generate revenue for the government that is not easy to find by other means.