

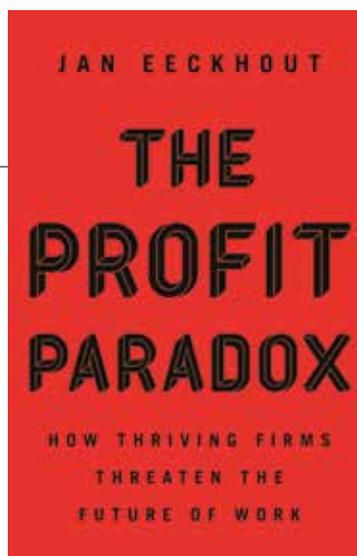
Market Juggernauts

THE PRE-COVID WORLD carried more than its share of economic anxieties and puzzles. In advanced economies, stunning new technologies failed to translate into significant economic growth. Even this slow growth failed to boost worker incomes much, as labor's share of income declined. And whatever small income gains workers enjoyed essentially went to top incomes, while low- and medium-skilled-worker wages stagnated or even fell. The pandemic is reinforcing these trends: output is still far below where it would have been without COVID-19, low-skilled workers have suffered the brunt of job losses, and dominant firms have thrived as many smaller enterprises struggled.

In *The Profit Paradox*, Jan Eeckhout posits that new technologies can still deliver tremendous gains in living standards for all. What's holding things back is the rise of dominant firms, which can be traced back to the winner-takes-all nature of new technologies and weak pro-competition policies. Dominant firms' successes, reflected in massive profits and booming stock markets, are not beneficial for workers—hence the profit paradox. Market power needs to be reined in, Eeckhout argues, just as it was during the robber baron era.

Through a mix of cutting-edge academic research, personal stories, and colorful examples—from beer to textiles to online advertising—Eeckhout establishes a connection between workers' woes and market power. He sees the latter as an amplifier of societies' other ills, too—from declining social and geographical mobility to rising mortality and climate change—as firms leverage their power to buy politicians into inaction (on climate) or harmful policies (on opioids).

His thesis is vividly illustrated by examples from the United States, making one wonder whether lessons could be learned from international experience. After all, labor force participation has not fallen in Europe in recent decades, and increases in wage inequality and declines in labor income shares have been much more modest than in the United States. At the same time, Europe stopped converging to US living standards four decades ago. Do these facts point to Europe's lesser embrace of



Jan Eeckhout

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

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new technologies, stronger antitrust enforcement, both, or something else altogether?

While the book convincingly argues for *some* role of market power in workers' woes, it leaves open the question of how big that role has been. Had market power been contained, would the (increasingly labor-saving) nature of technological progress still have hit workers hard, as the work of Daron Acemoglu and Pascual Restrepo, among others, implies? If so, does addressing market power really hold the promise of enhanced prosperity for all?

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What should be done? Antitrust needs to be strengthened and intellectual property rights rethought, Eeckhout argues. Some of his proposals line up with current thinking, while others are newer to the debate, such as ex-post fines on mergers that fail to deliver, or "inverse" data patents that would grant the collectors of data only temporary exclusivity. At a time when antitrust frameworks are being reconsidered on both sides of the Atlantic, Eeckhout's book is a powerful reminder that this rethink must go big. **FD**

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