said in different words for some time). Yet it seems to jar with the search for a new unifying economic policy framework. Maybe what we need instead is constantly evolving ad hoc knowledge and theories about specific domains, countries, regions, or aspects of the economy. Maybe the idea of overarching frameworks and one discipline dominating policy debates itself is what needs to shift – maybe those disciplines that offer better training in how to draw out specific context-specific causal mechanisms should play a greater role. Coyle will surely disagree, but her description of how the digital world has changed the economy offers the ammunition to those who think otherwise.

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The Profit Paradox: How Thriving Firms Threaten the Future of Work, Jan Eeckhout. Princeton, NJ: Princeton University Press, 2021, viii + 327 pages.
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What are the consequences of the increasing market power of large corporations? Jan Eeckhout's book *The Profit Paradox* tackles this question by providing a body of evidence of harmful effects of market power in many industries, with a particular focus on how increasing market power has harmed workers. Over the past 40 years, technological innovation has enabled a small group of companies to win the competition *for* a particular market and build a moat that prevented others from entering and competing *in* the market. Those thriving firms took advantage of economies of scale, network externalities, and various exclusionary practices to make enormous profits by charging prices that are substantially above costs. In itself, there would be nothing wrong with that: after all, the essence of the capitalist system is to invest in firms and make profits. However, and herein lies the paradox mentioned in the title, these profits swelled the pockets of business owners but had ominous effects on consumers, workers and the well-being of the economy.

The present book successfully carries out the Herculean task of bridging the frontier of academic knowledge with the general public. Even if complaining about economists working in their ivory towers is a typical amusement for public opinion and politicians, Eeckhout shows that this appearance is far from reality. Not only does he present novel results in economics in a friendly way without departing from academic rigour, but he also provides an agenda for policies to be implemented. Written in an engaging voice and full of concrete examples from everyday life, this book will certainly find a place in the bookshelves of economists, policymakers, and even the general public.

1. Market Power and its Consequences

While talking about market power is easy, measuring it is an exceedingly complex challenge. Eeckhout follows the industrial organization approach that measures the market power of a firm looking at the markup, that is, the ratio of price over marginal cost (in a perfectly competitive economy the average markup would be one). The measurement problem arises because marginal cost is a theoretical concept and is hard to find in the accounting books of real-world firms. While industrial organization economists traditionally have sought to overcome this problem by imposing a certain structure on consumer behaviour and on how firms compete, Eeckhout's book builds on a different method employed in the celebrated paper 'The Rise of Market Power and the Macroeconomic Implications' (De Loecker *et al.* 2020).[1] Relying on individual firm output and input data for publicly traded US firms and assuming cost minimization, a measure of the markup is obtained for each producer at a given point in time. The authors show that average markups in the USA have risen from around 1.2 in 1980 to 1.6 in 2016, thus implying that the last 40 years have seen a massive decline in competition. Moreover, they show that the rise in the average markup is driven by a few firms while the majority of firms saw no increase in markups.

Although the paper clearly defines the assumptions, caveats and limitations of the methodology used to estimate the markups, Part I of the book altogether omits such discussion. This becomes even more problematic if one considers that these results are currently a matter of debate in the academic field.[2] It is clear that these technicalities may not be of interest for the book's audience, but completely ignoring the existence of certain controversy over the results may fool the reader into thinking that estimations, subject to many potential errors, are actually pure stylized facts.

Something similar applies to the alleged macroeconomic consequences of increasing market power. One of the greatest puzzles in the economics profession concerns the causes of the steady decline in the labour share since the 1980s, that is, how much the economy spends on labour. Eeckhout construes the relationship between increasing market power and declining labour share in terms of *possible explanation*. 'The remarkable rise in market power across industries can explain', he contends, 'why the labor share has steadily declined, from 65 percent of GDP in the 1970s to 59 percent in 2016' (79). As philosophers of science know, scientists often provide possible explanations of phenomena, i.e. they tell us how a phenomenon possibly could have come about. Possible explanations can be heuristically useful to tell where to look for empirical evidence and they may add to a menu of explanations for a given phenomenon.[3] However, a possible explanation should not be mistaken for the actual or the unique one. Although the author is often careful to emphasize the provisional character of his empirical

[1]The article has already received more than 1700 citations. Source: Google Scholar, accessed in December 2022.

[2]For an example of such a debate, see the 2019 symposium of the *Journal of Economic Perspectives* (Vol. 33, No. 3, Summer 2019) where issues in the measurement of markups and the implications of market power for the labour market are discussed at length.

[3]See, for instance, Grüne-Yanoff and Verreault-Julien (2021) and references therein.

findings, the title of the book and some excerpts in Part II suggest a causal relationship between the growth of market power and the decline in the labour share which is not fully justified by the available empirical evidence. Despite such limitations, the link between market power and macroeconomic effects opened up new directions in economics research and explains the interest that the scientific community has paid to Eeckhout's work.

2. Three Views on Regulation and Competition

The Profit Paradox could not be more timely given that the discussion about how to deal with highly concentrated markets, such as the digital sector, is a hot topic in the political realm both in the US and Europe. Three camps can be identified within such debate (see Shapiro 2021). First, some people – including prominent politicians – argue that big companies must be broken up because their market power has given them too much political power over states, workers and small businesses. These people are known as Neo-Brandeisians because they draw inspiration from the ideas of Louis Brandeis, a former associate justice of the Supreme Court from 1916 to 1939. Advocates of the Chicago School, the second camp, are opposed to Neo-Brandeisians by focusing on the self-corrective character of the market system and on the risks associated with strict state regulation and antitrust enforcement. As markets tend to be competitive if not disturbed, the Chicagoans argue, wrongly convicting innocent firms has more adverse social consequences than failing to punish the guilty ones.

Eventually, a third approach recognizes that antitrust enforcement and regulation policy have been too lax in recent years and it calls for a broad application of economic theory and empirical research to assess the magnitude and the effects of market power of large firms on a case-by-case basis. It is safe to say that most contemporary economists would put themselves in the last group, sometimes referred to as Modernists. Jan Eeckhout is no exception and Part III of his book provides a set of proposals to address the macroeconomic consequences of increasing market power that eschews both blind faith in the tendency of markets toward competitive equilibria and simplistic solutions that minimize the scope of economic analysis.

Eeckhout's treatment of AB InBev and Apple's cases illustrates the Modernist approach. Both firms have a big share of their relevant markets and enjoy high market power, that is, they can charge high prices to customers. However, their growth has followed very different paths. While the brewing giant AB InBev grew by acquiring existing competitors, Apple developed organically by leveraging technological innovation and economies of scale. Although stronger antitrust enforcement would be desirable to avoid cases like AB InBev, in the case of Apple we need a more fine-grained approach based on *interoperability*. 'Rather than breaking up companies with market power that have grown organically', Eeckhout argues, 'the regulator fosters competition by forcing those companies to accept competitors on their platforms' (265). Companies such as Apple have strong incentives to thwart interoperability and preserve market power by, for example, producing a charging adapter that can only be used on Apple products. In such cases, the author argues, regulators should force Apple to make chargers from other manufacturers work on Apple devices. If you also loathe having to pay for a new charger every time you change an iPhone, then you will welcome his proposal. More importantly, forcing interoperability is likely to dismantle part of the moat built by these firms, which would bring markups (and prices) down. As a matter of fact, interoperability has already proven beneficial in other industries such as telecommunications. As Europeans moving to the USA know well, the European mobile phone market is more competitive than the US one exactly because owners of cell towers and infrastructure are compelled to allow other operators to use that technology.

3. What to do about Market Power?

As researchers show, since 1990 the amount of resources devoted to federal antitrust agencies – Federal Trade Commission (FTC) and Justice Department (DOJ) – has declined despite a simultaneous increase in merger activity and in the complexity of economic reasoning required to win in the courtroom.[4] At the same time, big businesses invigorated their lobbying activities to persuade elected politicians to write regulations that increased their market dominance and to push an agenda of lenient antitrust enforcement. Shrinking resources, increase in economic sophistication, and intense lobbying activities create a perfect storm at the expense of consumers and workers.

To address these concerns, Eeckhout argues for stronger competition authorities – where stronger means more independent from political power and more funded. The reasons for this proposal seem straightforward. First, if big firms lobby politicians by financing their electoral campaigns, then being as independent as possible from political power gives antitrust authorities more strength to enforce violations of competition laws by those firms. Eeckhout develops his argument for independence by analogy with the Federal Reserve: just as the independence of central banks from political power allows them to execute their monetary policy objectives, the independence of antitrust authorities allows them to avoid the interference of interested parties and pursue their goals of protecting consumers and promoting competition. Second, an increase in the budget of the FTC and DOJ implies both a greater number of cases to bring before courts and more funds to hire economic experts who can handle the complexity of the case and offer crucial economic evidence to persuade federal judges.

Regardless of their plausibility, we have some qualms about Eeckhout's proposals, especially when it comes to the independence of federal agencies. Appointed regulators have less incentive to respect public preferences than elected officials and, at the same time, citizens are less likely to monitor their actions. A novel study by Lancieri *et al.* (2022) suggests that the decline of antitrust enforcement in the USA since the 1960s was not due to a shift in general support for antitrust enforcement but rather to 'decisions made mostly in the shadow by politically unaccountable officials – judges and regulators –

[4]See, among others, Kades (2019), Wollman (2019), Kwoka (2020) and Peruzzi (2022).

whose views of antitrust at the time of their appointment were (in most cases) not publicly known or perhaps even clear in their own minds' (74). In this context, Eeckhout's proposal to make actors with decision-making power even more independent and distant from public assessment does not sound like the best answer to strengthen antitrust enforcement. Also, the analogy with independent central banks such as the Federal Reserve does not fully hold. The effectiveness of central bank actions has greatly improved not only by their increasing independence from governments, but also by the identification of well-defined and attainable macroeconomic goals. Whereas the Fed has the clear mandate of maintaining price stability, antitrust agencies still lack a widely accepted and administrable standard to guide their policy. In fact, the various schools of thought differ precisely on what such a standard may look like. As we have seen, the Neo-Brandeisians want to use antitrust to dismantle private power because they are concerned about corporate size as a threat to the political stability of democracies, whereas the Chicagoans confine the role of antitrust law to the protection of consumer welfare. Unless a shared agreement will be found on the goals to be pursued, we believe there is less chance for antitrust authorities to become as successful as central banks.

Eventually, although we are sympathetic to the author's recommendation to increase the budget of antitrust authorities, its implementation remains difficult from a political point of view. While certain economic phenomena are immediately perceived by citizens as harmful, for example high inflation, the ominous results of market power are more subtle. As the author himself points out, the widespread perception is that Amazon offers cheap products and that Mark Zuckerberg is a do-gooder who allows us to use Facebook for free. It is only after some reasoning that one realizes that Amazon's prices could be much lower if it faced competitors and that we provide Zuckerberg with our data that he exploits to make money from advertising or from selling them to marketing firms. Increasing government spending to help households deal with rising prices, therefore, sounds like a more promising slogan for winning the next elections than putting money to fund antitrust and regulatory agencies to fight market power. At least, *The Profit Paradox* strives to turn the tide.

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Theory and Credibility, Scott Ashworth, Christopher Berry and Ethan Buena de Mesquito. Princeton University Press, 2021, 280 pages.
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Here's the top line: This is the best book on the philosophy of social science I've read in a long time. If you're interested in the philosophy of social science, social-scientific methodology, or issues of modelling and explanation, you should immediately make your way to the nearest purveyor of fine books and buy yourself a copy or three.

The book's philosophical core is its discussion of idealization and robustness. To be sure, these are familiar issues for philosophers of economics. But *Theory and Credibility* is like a good steak – its great virtue is the quality of its execution. In particular, its authors ably link issues of philosophical substance with concrete examples that are presented simply enough to be accessible to philosophers with little formal economics or political science training, but in enough detail to motivate those issues to practicing social scientists and link them tightly with actual social scientific practice.

By their own lights, Ashworth, Berry, and Buena de Mesquito (hereafter ABB) are interested in explaining to theorists and empirical social scientists what, exactly, the other party is up to, and why they do the things they do. I am neither a theorist nor an empirical social scientist, but I came away with a great deal of insight into both sides of the social science enterprise.

The book is divided into two parts, bookended by a brief Introduction and a Conclusion. The first part, 'Foundations', comprises the first five chapters and provides a comprehensive conceptual framework for thinking about how theory and empirical methods help us discover things about the world. The second,