
Thomas Philippon, *The Great Reversal: How America Gave Up on Free Markets*, Cambridge, Mass., and London: The Belknap Press of Harvard University Press, 2019.

America's rise from a peripheral, agricultural society to the greatest, wealthiest, and most dynamic industrial nation in the world – the engine of the global economy – was spectacular. This success, due in large part to the combination of favorable geographic conditions and a liberal economic outlook that emphasized entrepreneurship, has made

the United States, in popular imagination, the embodiment of the “free market.” Since the 1970s, however, the American economy has increasingly failed to produce widespread social progress, and in recent years it has been characterized by worsening instability and deteriorating living standards for substantial segments of the population. Donald Trump’s victory in the election of 2016 can be seen as a demonstration of the growing sense of social and economic discontent.

As these lines are written – in the midst of a massive economic downturn caused by the Covid-19 pandemic and less than 100 days before the 2020 presidential elections – understanding the reasons for America’s increasingly disappointing economic performance and assessing the options for reviving it appear as extremely pressing issues, making Philippon’s *Great Reversal: How America Gave Up on Free Markets* a timely and very interesting read. Philippon examines the evolution of the American economy since the 1990s, provides a number of important insights into the causes of the current economic malaise, and offers some valuable ideas and principles towards a solution.

Thomas Philippon is a French economist who has lived in the US for over two decades and currently teaches finance at NYU’s Stern School of Business. His outlook is markedly liberal and free-market. As the title suggests, however, far from being an ode to unfettered markets or yet another variant of the “capitalism American style” rhetoric that recurs so frequently in the mainstream political and economic discourse in the United States, *The Great Reversal* debunks a series of myths that distort our understanding of the actual economic challenges the US faces.

Despite the common perception of the US as the champion of the free market, in the last two decades, Philippon observes, competition within the American economy has decreased substantially, resulting in lower living standards for ordinary Americans. This unexpected trend, the author argues, is due to greater concentration in US industrial sectors. The leading corporations have become more and more entrenched and acquired increasing market power. This has had a number of negative

consequences. First, it has led to excessive profits for US corporations, higher prices for American consumers and lower wages for American workers. In addition, excessive market power has been a key factor in lowering investment and slowing productivity growth. Far from being the natural result of globalization, market dynamics, and technological change, Philippon argues, the surge in concentration actually depends on a vicious domestic political circle: the more market power US corporations acquire, the more they gain resources that can be invested in increasing their political power through lobbying and campaign contributions aimed at obtaining favorable, anti-competitive legislation, such as barriers to entry and weak antitrust enforcement.

The book is organized in four sections: an examination of the evolution of the US economy, with a focus on competition; a comparison between US and EU competition policies; a review of the relationship between money and politics; and an analysis of key industries, such as finance, healthcare, and what Philippon calls the “GAFAMs” – Google, Apple, Facebook, Amazon, and Microsoft. Each section first sets out an overview of the facts and the data, then methodically analyzes and tests possible explanations, and finally presents the author’s conclusions.

As noted, Philippon’s analysis often challenges widely held views. In his opinion, for example, the European authorities have actually become better at promoting competition than their American counterparts. The reason for this reversal of history, Philippon argues, is the supra-national nature of EU institutions, which gives them greater autonomy than their US counterparts: European politicians are more concerned about the risk of regulatory bodies being captured by other member states than they are about tough antitrust rules.

The Great Reversal also challenges many assumptions concerning “Big Tech” and its role in the US economy. The GAFAMs – the stars of the “new economy” – are not that different from past stars in many crucial regards, including profits and stock market value. What really makes them unprecedented, Philippon argues, is the fact that they employ

relatively few, highly skilled workers and that except for Amazon they interact very little with the rest of the economy. This means that these corporations are much less essential to the success of the US economy than is commonly thought, so the case for applying severe antitrust and regulatory policies to the Big Tech sector is much stronger than is often assumed.

What America needs in order to revive its economy, Philippon concludes, is a smarter and more effective antitrust policy. This effort to rethink US policy for competition, the author suggests, should be based upon a few clear and simple principles: first, ensure free entry and keep markets competitive via tough antitrust regulation; second, recognize that regulation cannot be perfect and allow policymakers to experiment and learn from their mistakes; and, finally, protect transparency, privacy, and data ownership.

The Great Reversal does have limits, however. The analysis focuses narrowly on competition. The author tends to explain any problem affecting the US economy as due to lack of competition and to see heightened competition as the default solution to virtually any challenge. The author doesn't delve into the role of the state as entrepreneur or as supporter of R&D and other long-term policies that increase productivity and raise living standards.¹ Philippon does call for a strong and proactive economic role of the state, but this role is essentially limited to crafting regulation and enforcing competition policy. The analysis is relatively unconcerned with inequality and does not examine the case for more government intervention for social justice as a way of promoting equality of opportunity and long-term economic growth.² On the other hand, in a way these very limitations also constitute the book's strength: namely, its clear focus on what is plainly a central

¹ Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London: Anthem, 2013).

² Joseph E. Stiglitz, *People, Power and Profits: Progressive Capitalism for an Age of Discontent* (London: Penguin, 2020).

challenge for the future of the US economy as well as for American politics, and its comprehensive, detailed, informative, and constructive analysis of that challenge.

The book clarifies key elements of the relationship between money and politics in the US, such as lobbying and campaign financing. Philippon's dissection of these issues, and his summary of the most recent pieces of economic literature on topics such as campaign contributions, "dark money," and "revolving doors" are illuminating. He also provides useful tools to understand the intricacies of some of the most pressing and contested policy issues in the United States, such as reform of the financial and health care industries and regulating the dotcom sector. Recurring comparisons between the US and the EU make the book a very valuable resource for students of comparative politics.

Philippon makes a compelling case for free markets and competition as the key engines of economic dynamism and the fundamental factors in economic growth and social welfare. He stresses the importance of public institutions and effective regulation as means to ensure competition and make sure that free markets are actually free.

The Great Reversal is perhaps a bit more challenging and a bit less captivating than other policy-oriented analyses of the American economy, such as Robert Reich's *Saving Capitalism*³ or Stiglitz's *People, Power and Profits*. Philippon's work is meant for readers who want to go beyond a broad overview of the US economy and are ready to dig deeper into specific issues. The book is nonetheless very timely, readable, and engaging, and the author succeeds in explaining a complex subject and summarizing a mass of academic research in an accessible way. The effort to make *The Great Reversal* accessible to the general reader is corroborated by an appendix and a glossary.

Overall, *The Great Reversal* is definitely a must read – not only for those

³ Robert Reich, *Saving Capitalism: For the Many, Not the Few* (New York: Vintage, 2016).

who are interested in economics, but also for political scientists and observers of American politics. Even non-specialist readers who are ready to spend a little extra time on charts, tables, appendixes, and boxes will find it highly useful and informative – an essential compass to orient you on some of the crucial issues that dominate today's debate on the state and the future of the US economy.

Diego Pagliarulo
John Cabot University
