

The Market Power of Technology: Understanding the Second Gilded Age. By Mordecai Kurz. New York: Columbia University Press, 2023. Pp. xx, 424. \$140.00, cloth; \$35.00, paper; \$34.99, e-book. ISBN 978-0-231-20652-5, cloth; 978-0-231-20653-2, pbk.; 978-0-231-55652-1, e-book. (JEL D21, D31, D40, N60, N70, O30, O41)  
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We have witnessed a remarkable expansion of information technology (IT) over the past five decades. The IT revolution has permeated numerous industries and aspects of our lives, and its momentum continues unabated. As we look to the future, generative artificial intelligence is poised to become the next major technological frontier. The question of how this shift impacts societal welfare is of utmost importance to scholars and policymakers alike.

In his book, *The Market Power of Technology: Understanding the Second Gilded Age*, Mordecai Kurz leverages his extensive expertise in economics to tackle this fundamental question. Kurz argues that innovation can bestow persistent market power upon firms, resulting in higher prices, reduced long-term output, and increased inequality.

While economists generally concur with Kuznets's (1955) viewpoint that capitalism under democracy can lead to a stable equilibrium where the benefits of productivity are distributed equitably in society, the reality is that most developed economies have witnessed a substantial rise in inequality since the 1970s (Piketty and Saez 2003). This rise in inequality cannot be solely attributed to changes in labor productivity. Kurz suggests that it is primarily caused by a combination of technological advancements and laissez-faire public policies, which have granted firms greater market power. Kurz proposes implementing active antitrust measures and stringent tax policies as potential solutions to reduce inequality.

A significant contribution of this book lies in its estimation of market power since the 1900s. Kurz defines monopoly wealth as the expected value of future cash flows arising from any innovation or brand. Kurz measures this as the total stock market value and debt of a firm, minus its total capital. This simple definition provides a key insight. Over the past decades, new capital expenditure has predominantly been financed through debt. Hence, increasing stock market valuations cannot be explained solely by rising capital accumulation, and are a sign of increased market power. Kurz formalizes this intuition by plotting the historical profit shares for firms, which demonstrate a pattern of increasing during the initial Gilded Age spanning from the 1890s to 1901, followed by a decline until the 1980s, and a subsequent rise from the 1980s to the present. Kurz posits that the absence of robust antitrust measures during the first Gilded Age led to a rise in market power, and that a similar erosion of antitrust regulations since the 1980s has propelled us into a second Gilded Age.

Strong patent protections can boost innovation by incentivizing inventors. This increased innovation enhances overall productivity, resulting in superior average outcomes. Under this logic, antitrust policies may penalize the most productive firms and potentially reduce overall output. On the other hand, patent laws and a laissez-faire antitrust policy endow market power to innovative firms. Increased market power exacerbates inequality as resources concentrate in the hands of equity holders leading to subpar distributional outcomes. The book excels in its examination of these costs and benefits through detailed empirical evidence and models.

Chapter 2 introduces a model that explores the impact of increased productivity on output and capital. Innovation shocks boost output and capital in the short term. However, these shocks also lead to a rise in firm market power. A lax antitrust policy allows market power to accumulate over time. Consequently, increased firm power may counteract earlier gains and diminish long-term output and capital.

Chapter 5 delves into the influence of antitrust policies on the diffusion of innovation. Passive antitrust policies augment market power and prices, impeding the widespread adoption of innovation. Kurz presents evidence that the increased market power of General Electric delayed the diffusion of electricity by 12 to 15 years. These substantial estimates raise doubts about whether the IT sector's innovation was best served by a lax antitrust policy.

Chapter 7 explores the implications of robust antitrust measures for redistributing resources among firms and fostering innovation. Kurz begins with the assumption that success begets more success in technological competition, as superstar firms utilize their patents, research and development budgets, and merger policy to further innovate. The cumulative nature of success implies that early positive shocks lead to the dominance of a few firms, even if multiple firms start with the same level of productivity. Consequently, it is not imperative for the most productive firms to triumph in technological competition, and antitrust measures can aid innovation by redistributing resources among a greater number of firms. Kurz bolsters his argument by highlighting how the federal government's case against Microsoft in 1998 led to the diffusion of resources and the founding of numerous technology companies.

*The Market Power of Technology* offers a comprehensive range of policy remedies to rein in firm market power. The primary policy implications center around antitrust and patent laws, which have the potential to alter the long-term equilibrium trajectory of the economy. Kurz proposes heightened scrutiny of mergers involving firms with significant market power, the breakup of vertically integrated technological conglomerates, and standardization of digital platforms. Kurz also suggests reforms to patent law, such as increasing novelty requirements, the return of unused patents, and reducing the duration of patents by half upon renewal or acquisition. Each of these policy ideas is meticulously developed and expanded upon in the final two chapters.

*The Market Power of Technology* stands as an important and timely contribution. While the book may pose a challenge for readers without an economics background, it provides a clear and concise analysis of the relationship between technological innovation and market power. This book is essential reading for anyone seeking to comprehend the causes of economic inequality and the role of public policy in addressing it.

## REFERENCES

Kuznets, Simon. 1955. "Economic Growth and Income Inequality." *American Economic Review* 45 (1): 1–28.

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