The Case For Microsoft

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Although monopoly means one seller, when classical economists railed against monopolies, the single sellers they knew had been given a special concession--in coal, say, or salt--by the king or queen. If we use the word the way the classical economists did, to mean a company with the sole, state-granted right to sell a certain product or perform a certain service, current monopolies include the U.S. Postal Service, almost all electric utilities, and almost all cable TV companies. All these entities are legally exempt from having to compete. People who have tried to compete with the post office, for example, have been charged with crimes when they persisted.

But many people today, including, unfortunately, virtually all lawyers and economists in the Justice Department's Antitrust Division and the Federal Trade Commission, use the term monopoly somewhat differently. They mean simply market power, or the ability of a firm to raise prices without losing all sales. By this definition, almost all firms are monopolies: if your local grocery raised the price of steak by 1 percent, would its sales go to zero? This broad and silly definition, therefore, gives the government's antitrust enforcers ample room to go after almost anyone they want. But whom to go after? In practice, they tend to target competitors who succeed.

Poor Sports

This brings us to Microsoft. Since 1991, almost without a break, the Federal Trade Commission and the Antitrust Division have been after Microsoft for alleged violations of the antitrust laws. The FTC, which started first, researched Microsoft's behavior not by asking its customers whether they were satisfied with the company's products and prices, but instead by asking Microsoft's competitors. Of course, some of Microsoft's competitors reeled off a litany of complaints. Funny how that works--competitors tend not to like their competition, and they dislike their most effective competitors even more than they dislike the pesky consumers who won't buy their products. Recently, after I coached my girls' basketball team to a lopsided win, one of my players told me that a friend on the losing side had complained about how aggressive we had been. I said that was just the girl's way of admitting that we had played well. Anyone who follows technology will recognize the tone: Microsoft is too aggressive, its competitors drone, or Microsoft doesn't play fair. But anyone who knows Microsoft can't help but be impressed by how incredibly hard its managers and employees have worked to make the company so successful. They got their market power the old-fashioned way: they earned it. And they did so not just by working hard, but also by thinking clearly.

A good indicator of how much competition there is in an industry is the amount of complaining some firms do about their competitors: the more numerous the complaints, the more competitive the industry. So the FTC should have closed the investigation on Microsoft as soon as it got the complaints. This seems obvious, if what you're worried about is competition.

Admittedly, what first caught the FTC's attention was not a competitor's complaint but the 1989 joint Microsoft-International Business Machines announcement that the companies would bring out a more powerful version of IBM OS/2 and a less powerful version of Microsoft Windows. But the FTC didn't understand what everyone else knew, which was that Microsoft wanted to make Windows the industry standard: fears of a duopolistic partnership between Microsoft and IBM were comically misplaced. Moreover, the FTC's whole focus was on Microsoft's Dos, even while Dos was becoming obsolete and Windows was taking over. That's an old pattern for the antitrust authorities. The Justice Department sued IBM in 1969 over its high market share in mainframe computers; the suit was finally dismissed in 1982, when the PC revolution was relegating mainframes to a small sector of a much bigger market.

Does Not Compute

In June of 1994, the FTC muscled Microsoft into agreeing not to engage in "per processor" licensing of Microsoft's Dos and Windows--whereby PC manufacturers would pay Microsoft a small fee--about $15--for the right to load Dos and Windows onto every machine that left their factories. The government claimed that Microsoft's practice discouraged competition in operating systems, but never cogently explained how. Manufacturers were always free to say no to Microsoft and to load other operating systems. Presumably they thought their customers would prefer Windows.

In 1995, the target of the Justice Department's investigations was the coming Microsoft Network. The one-sided nature of the investigation made many observers think the government would not let Microsoft keep easy MSN sign-up as part of its forthcoming Windows 95 for fear that Microsoft would have an unfair advantage in Internet subscriptions. As we now know, that fear was unfounded. The number of America Online subscribers is a multiple of the number of MSN subscribers.

Hand of Injustice

No one can know which technology will be dominant ten years or even two years from now. Even Bill Gates, for example, overestimated the importance of interactive TV. The best way to promote competition is simply to let it happen, which means that you have to let competitors win. When another company produces better products and markets them more cleverly, that company will do well.

Unfortunately, the antitrust laws often focus on tearing down, or at least hobbling, successful competitors. The famous antitrust decision against Alcoa in 1945 is instructive. In that case, Judge Learned Hand found that Alcoa was a monopoly and forced it to divest its Canadian subsidiary. What did Hand think Alcoa had done wrong? It had been too forward thinking, too productive, and too flexible. Hand wrote:

It was not inevitable that it should always anticipate increases in the demand for ingot and be prepared to supply them. Nothing compelled it to keep doubling and redoubling its capacity before others entered the field. It insists that it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity already geared into a great organization, having the advantage of experience, trade connections, and the elite of personnel.

This decision, perverse as it was, was consistent with the spirit of the antitrust laws. Economists who are taking a fresh look at the origins of the antitrust laws are finding that their major interest-group proponents were not consumers but, instead, firms that didn't want to face tough competition.

Thomas DiLorenzo, an economist at Loyola University in Baltimore, has shown that in most of the industries supposedly monopolized by the trusts in the 19th century--coal, lead, leather, linseed oil, liquor, salt, sugar, and even petroleum and steel--output had grown and prices had fallen in the decade leading up to passage of the Sherman Antitrust Act. Antitrust laws, it seems increasingly clear, are intended for use against successful competitors.

What if the feds let competition run its course and Microsoft is still the dominant software company ten years from now? If that's the case, it will be because Microsoft has done a whole lot of things right and only a few things wrong. More important, it will be because it has learned from its mistakes. Microsoft earns its market share day after day, and its competitors will admit as much. Pete Peterson, an executive vice president of WordPerfect, once said of Mr. Gates: "I wish he'd get married and have a couple of kids so he couldn't work as many hours as he does." Indeed.

Bill's Mother Wears Army Boots

Much of the anger felt toward Mr. Gates and Microsoft isn't really because they are monopolists. It's something more primitive: envy. Imagine that Microsoft had the same market share it has but that the going price on Microsoft shares was 10 cents. That would put Mr. Gates's fortune at about $1 million. Would people object to Microsoft's "monopoly"?

When people are envious of great wealth, they say untrue things. These people somehow think that envy of the wealthy and attacks on them are not only right but somehow morally superior. Think of the really cruel things that many people have said about Mr. Gates. To see lots of them in one place, check Jim Erickson and James Wallace's 1992 biography, Hard Drive: Bill Gates and the Making of the Microsoft Empire, which reports much innuendo and loosely based gossip. In the opening chapter, the authors write that the makeup Bill Gates wore in front of a camera "hid the acne to which he was still prone." The authors also report the "joke around the industry" that "Gates never went anywhere without his dandruff." When the authors made these unkind remarks about the personal characteristics of a fellow human, there was no general outrage.

Imagine the outrage that would have followed had the authors made similar comments about, say, Mother Teresa. Indignant readers would have asked, "How could you be so cruel? Here is this good woman doing good deeds. How dare you attack her?" True, many people might consider Mother Teresa morally better than Bill Gates. But if we judge people by their deeds and not their motives, the good that Mr. Gates has done in the world is orders of magnitude greater than the good that Mother Teresa has done. So how should we talk about Bill Gates? When I think about his single-minded drive to develop software that has revolutionized my life as a writer, two simple words come to mind--words that I was taught to use as a child when someone did something for me, even when that person was paid to do so. The words are thank you.