

Google and the myth of an open net

10 October 2006

By Thomas Hazlett

The news that YouTube has pocketed \$1.65bn in Google gold has stirred the technology industry and pushed yet another wave of computer savvy twenty-somethings to all-night madness in the race for the next cool thing. Business aspects of this exciting match which would itself resemble a hook-up on a social networking site, were it not for the 10-digit transaction price will offer financial analysts plenty of grist. But the public policy elements are perhaps even more profound, as they sail beneath the radar.

Google famously engineered the world's greatest search engine. Initially deployed on the computer networks of the Stanford University computer science department by two precocious graduate students, an exceptionally useful product was born at just the moment that the wise men of Silicon Valley determined that web search was uninteresting, simply a commodity.

Out of the dust of the dotcom crash roared Google search, a locational tool so remarkably superior that it crushed rivals such as Inktomi and Overture, managing to produce \$80bn in new market value while Microsoft shares (1998-2006) stood still. The company's advance is explained in two delightful tomes, David Vise's *The Google Story* and John Battelle's *The Search*.

The innovation that Google pioneered brought order to the web's universe by craftily ranking search responses. This was achieved by linking a better software idea PageRank to a brutally powerful computer network, incorporating more than 100,000 personal computers and a global fibre optic grid. The combination, which Mr Vise dubs "Googleware", answers search requests with lightening speed and impressive utility. Google turned a noun into a verb, revolutionising the online experience.

Then the entrepreneurs at Google took a stab at public policy. The company became the leading champion of the hottest topic in technology policy over the past year, asserting that if web innovation such as theirs was to be retained, new laws were warranted. The specific fear was that internet service providers delivering last-mile broadband would shift their pricing strategies, charging not only end users for their connections but application vendors (say, search engines) for access to their customers. Worse, they might move into content and then favour their own web products over those of competitors. "Network neutrality" rules were needed, Google argued, because the architecture of the internet demanded it. That structure relies on traffic flowing freely over a network that is "open, end to end".

Yet the capitalist engine that powers the internet demands something completely different, as Google's acquisition of YouTube makes clear. That strategy is to integrate Google's search and advertising sales with YouTube's users, which could potentially impede access to one of the hottest technologies by other service providers. Jeremy Schoemaker, a net economy expert, sees the deal as superb for Google, "merging to form the biggest video network" and winning a "land-grab for publisher space". Perhaps even better, it boxes out a rival: "This move is a total 'in your face' to Microsoft," which had made YouTube an offer for an advertising agreement.

The internet lurches forward in spasms of business model discovery, as when Google figured out how to auction off search-targeted advertising slots, leaving banner advertisements behind. Today, Google's absorption of its little video cousin is part of this jockeying for positions of

competitive superiority. The internet really is not open if, as Google hopes, it is doing it right.

Google has been doing it flawlessly forging exclusive bargains nonpareil. Mr Vise declares the watershed business event in the company's history to have occurred on May 1 2002 when its search engine was licensed to AOL. "Web properties that connected more than 34m subscribers ...had a small search box on every page that said, 'Search Powered by Google. '" To land this deal, Google extended to "AOL a very large financial guarantee", including stock options. An ISP getting paid to feature a favoured search engine? What net neutrality would presumably end is what helped launch Google.

The seven-year-old company serves about 50 per cent of online searches, twice the market share of its closest rival, Yahoo. That could raise an eyebrow or two among competition authorities evaluating the Google/YouTube merger. Surely, net neutrality arguments suggest a cause for concern.

Google's "Don't Be Evil" mantra has proved enormously profitable. The company is to be applauded for the social value it has created. But its detour into public policy advocacy ought to be squared with its own business model. Innovation on the web requires market transactions, including deals that integrate once-independent operations. That is the internet's DNA. You can call it "open", but YouTube just got bought. That gives Google something special that it will develop, to the exclusion of Yahoo, Microsoft, NewsCorp and other rivals. For investors, the game is rough and wild. But as a consumer, what's not to like?

The writer is professor of law and economics at George Mason University, where he is director of the Information Economy Project of the National Center for Technology and Law