

## Googling ‘Innovation’

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President Barack Obama has announced a new government initiative to promote economic innovation. In other news, the Federal Trade Commission has launched an [antitrust investigation](#) into the practices of Silicon Valley’s uber-innovator, [Google](#). Note to the administration: If you want to promote innovation, stop prosecuting it.

Not that Mr Obama’s government is the first to sink into this policy quicksand. From IBM, to Microsoft, to Intel, to Google, the most intensively creative and competitive US tech leaders have been read their rights. All of them have had excellent rebuttal arguments. The government dropped its entire 13-year anti-monopoly case against IBM in 1982. Intel has repeatedly escaped with nary a scratch. Microsoft, naively, lost its “antitrust case of the century” (filed May 1998) by preferring lawyerly games to putting Bill Gates on the stand to explain the deep efficiencies supplied by expanding and improving the Windows platform. The “successful” justice department case ultimately did nothing to advance consumer interests.

The FTC action against Google is again rich with irony. Google’s founders initially argued, in [this now famous paper](#) by Sergei Brin and Larry Page in 1998, that a commercial enterprise could not be trusted to deliver clean search results; it would inevitably bias results to subtly favor its corporate sponsors. Now they will attempt to show regulators just how wrong they were.

They are being schooled by the market even now. Their company is in legal jeopardy due to complaints from rivals – most sensationally, Microsoft. Since its legal debacle it has become a whirling antitrust dervish, generating scrutiny of Google both in the US and the EU. The Obama administration might want to examine the policies that steer “innovation” in the fast-growing competitor-on-competitor lawsuit industry.

Google disrupted real markets by overcoming the gaming of “keyword” matches. Through superior cataloguing of world wide web content and vastly improved algorithms for evaluating keyword matches, the upstart supplies vastly improved search results. When it learned how to monetise its utility through “intention-based advertising”, it rocketed to the frontiers of internet space.

To stay there, Google must continually upgrade its product. In 2010, Google tested some 6,000 tweaks to Google Search; about 500 were adopted. These changes – Google’s “secret sauce” – serve to maintain search quality, serving customers. Were they not,

Microsoft and its rival search engine, Bing, would benefit. Their complaint makes it a safe bet that consumers are better off.

When Microsoft was sued for upgrading its Windows operating system – incorporating a browser and investing aggressively to make its Internet Explorer 3.0 as good or better than Netscape Navigator – it also benefited consumers while hurting rivals. Charlie Munger, the vice-chair of Berkshire Hathaway, could not see the logic of attacking “super-successful corporations that keep their high market shares mostly through fanatical devotion to improving one-price products.”

Even as the government won its case against Microsoft it had no remedy to improve the situation. The sanctions imposed forced the convicted monopolist to be more accommodating to third-party apps running on Windows. This would tend to protect any monopoly. In any event, the operating system software market – judged to be 90 per cent Windows in 1998 was still at 89 per cent Windows in May 2011. The emergence of Java as a competing OS, the theory on which the justice department based its 1998 case, never occurred. Meanwhile, the migration to mobile devices and the emergence of smartphones – where [Microsoft](#) is getting creamed by [Apple](#), [RIM](#), and Google – was unseen.

Google’s affectation for public policy sets it apart, perhaps, from the Beast from Redmond. Perhaps it will offer a better defense. Yet, when Google sought regulatory clearance for the purchase of DoubleClick in 2008, it argued that it could not raise the price of online ads because it allowed auctions to set the price. Even a stumbling Econ 101 student should see, given that Google sets the quantity of ads to be auctioned, it surely does influence price.

The search giant now claims that it cannot be a monopolist because rival search engines are “just a click away”. Yes – and Navigator was but one download away for Windows users. The fact is that Google dominates search, with some 65 per cent search share, because it is competitively superior. It assuredly does manicure results; upstart rivals – such as Blekko – do the same, without any conceivable market power, in order to provide a better user experience. That is a pro-consumer outcome, even if – in reality – it takes multiple clicks, and some user investment, to determine how Bing or Yahoo measure up.

Here’s the nut: consumers gain when Google innovates, and rivals lose. The clucking of disgruntled companies is the soundtrack of creative destruction. Mr Munger, lawyer and investor, offers a reality check: “We need a simple, improvement-friendly rule that a new feature is always a permissible improvement if there is any plausible argument whatever that product users are in some way better off.” If the Obama administration truly wants innovation, it ought to encourage more of what they are drinking in Omaha, and less of the trouble brewing in Washington, DC.

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