



U.S. v. Microsoft: Who really won?

Ten years on, how evil was Microsoft's Evil Empire?

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By Thomas Hazlett

Before he became Mother Teresa, Bill Gates was Darth Vader. As captain of the Evil Empire, he and his minions dominated PC operating systems, vanquishing all rivals. In May of 1998, the US Department of Justice struck back.

In the "antitrust case of the century," the DoJ accused the Microsoft Corporation of monopolisation. The company was accused of destroying a rival in browserware - Netscape's Navigator -- to suppress a competitive threat in operating systems - Sun's Java. With Navigator's browser becoming popular and ubiquitous, the Java script it embedded would, the DoJ predicted, provide an alternative platform for applications. This would deprive Microsoft's Windows operating system of control over the computer; independent programmes could gain access simply by launching via Java. Soon Windows would be a trivial layer between valuable stacks of hardware and software applications. Fearing this, Microsoft sought to thwart Netscape and technological progress. So went the theory.

The government won its case and, after a divestiture order blowing the Empire to bits, was itself neutralised by an appellate court, imposed sanctions designed to make Windows play a far more gracious host to rival applications. Microsoft now releases more information about its interfaces, which are coded to accommodate more rivalry, depending on who is testifying and what jurisdiction you are hearing the latest antitrust case in.

Ten years of wild and crazy software sector history allow us to reflect. First, we note that the case struck a decisive blow against the Silicon Valley hubris that it was beyond the range of regulatory attack. Its Maginot Line breached, the tech industry flipped from defence to offence, equipping new armies to do battle in Washington and Brussels. The sleeping giant now roars public policy. From libertarian survivalists to shock troops for "network neutrality" in just one decade.

And we can now judge the government's fundamental assertion in US v Microsoft. Did Microsoft's tactics serve to protect a Windows monopoly that a targeted antitrust intervention could open to competition?

No. Whether one concludes that the court-imposed sanctions worked, or did not, the answer is the same. If the antitrust enforcers imposed precisely the right measures, Java has done nothing to dent the Windows franchise. If the sanctions were inept or poorly enforced, that is even more directly a failure of the theory that an anti-monopoly law can improve on the "but for" scenario.

But the decade has hardly been a bust for competition. It flourishes on margins unimagined by those who were professing to protect its path. Rivalry has come not from Java, but from a resurgent Apple and the open-source Linux. One is a vertically integrated firm with proprietary innovation; the other a geekdom of code-sharers seeking karma and human capital. Meanwhile, Microsoft's Internet Explorer is coughing up market share to Mozilla, Netscape and Opera, browsers that ride comfortably on Windows.

But operating systems and browsers turned out to be a side show. The profits of the decade have been stolen by entrepreneurs who saw what was unfolding over a distant horizon. And then

traversed that distance in a flash.

While the DoJ was filing against Microsoft, two youngsters at Stanford were crawling the web. With a search engine that could catalogue and rank the world's web sites, matching key words while filtering out mish mash, their start-up quickly entered the language as a verb - a really popular verb. You can Google it.

Meanwhile, Apple has been making its own fortune under the shadow of the beast. It is crushing Microsoft in media players, finding its salvation in the holy i-trinity of Pod, Tunes and Phone. Domination of this digital consumer space was right there for the dreaming.

In 1998, operating systems and browsers looked to be the strategic high ground of cyberspace. He who dominated these tools would extract tolls, excluding rivals and squeezing customers. The reality was different. Incredible value was created in applications not then known and party occupying the old position of dominance proved ineffectual as a monopolist and an also-ran as a competitor.

Microsoft is valued at about \$300bn, modestly above where it stood a decade ago. In just the past five years, however, Google and Apple have together generated a brand new \$300bn in shareholder wealth. That a software giant proved helpless against competitive forces is an important lesson. We were not saved from the Evil Empire by police action. But Darth Vader proved not so scary, after all.

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