

MICROSOFT IS NOT TOO POWERFUL

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Microsoft Corporation recently emerged relatively unscathed after a major investigation into their business practices by the US Justice Department (*PC Week* magazine, 26th July 1994). This followed a previous probe by the US Federal Trade Commission.

In March 1993 *International Business Week* magazine ran a feature on the Microsoft corporation entitled: "Is Microsoft Too Powerful?" In that article a number of issues were discussed which also featured prominently in the Department of Justice investigations. As part of the Justice Department's "Peace Deal" with Microsoft it has been required to end a number of practices commonly considered to be abuses of its "monopoly" power within the personal computer industry.

ABOUT MICROSOFT

Microsoft is the world's largest producer of computer software. At present it is confined to the personal computer section of the software industry, though it is endeavouring to expand upwards into the domain of workstations and mini-computers, areas where the UNIX operating system is currently very strong. It has been dominant in the area of PC operating systems for many years and seems to be becoming more dominant still. More recently, due to the spectacular success of the Windows graphical user interface (created by Microsoft), it has started to dominate the market for PC applications also. The computer industry, having witnessed the spectacular fall from grace of IBM, now has a new bogeyman to whinge about. In the United States this whingeing first grew into a Federal Trade Commission probe into Microsoft's activities. As we have seen, the case was subsequently taken up by the Justice Department. One might have expected that IBM's fate would have taught Microsoft's competitors, and the politicians, a lesson on how the market operates when freedom of entry is not forcibly prevented.

ABOUT THE MARKET

One major motivation for government regulation of business, on behalf of business, is the notion of "fair" competition. Competition is deemed "unfair" if competitors do not all have roughly equal assets and market share. Even where one company does not control

over half of the market, but a handful of big companies do, this is frowned upon. "Bigness" seems to be disliked purely for its own sake and quite independently of whether a big company happens to make good products.

The defining characteristic of market transactions is that they involve mutually consenting exchanges of goods and services. This implies that, in any exchange, each party voluntarily participates in it. But, within a given industry, there is nothing about the nature of a market which requires that there be lots of businesses, or that some should not "control" large sectors of the industry. The important requirement is that freedom of entry be not forcibly prevented. "Forcible prevention" means, principally, legal prohibition by the government. It does not mean a competitor making it difficult for others to compete owing to its size, brand name and/or efficiency. If I wish to go into competition with Microsoft tomorrow by offering a new operating system or a new spreadsheet, obviously I can expect a tough time. But there is no law which says I cannot start a computer company. Government regulations make it more difficult than would otherwise be the case but, in this context, all businesses are hampered by government regulations and Microsoft was when it started.

The *International Business Week* feature outlined a number of charges levelled at Microsoft, mostly by its competitors, which have become fairly standard. For this reason, that article serves as a good starting-point for a discussion of these issues.

EARLY PRODUCT ANNOUNCEMENTS

Microsoft sometimes announces products years before they actually exist. If a competitor already has a product which has the features which Microsoft claims to offer, potential customers are reluctant to buy it — preferring to wait for Microsoft's product.

So what? This just means that Microsoft has been successful in the past — sufficiently successful that its customers are willing to try it again. The competitors' complaints should be directed, not at Microsoft, but at its customers. It is up to the competitors to try and persuade consumers to buy their products rather than Microsoft's. If

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FOR LIFE, LIBERTY AND PROPERTY

a consumer is satisfied with several products from one company it is inevitably difficult for another company, offering similar products, to win his favour. This is essentially an economic phenomenon. For the consumer to try another company's products involves a cost in time and knowledge. Even if that company's products would in fact be better for that consumer's requirements it does not follow that he should switch to its products, since time and knowledge are not costless resources.

In the case of Microsoft, their competitors' complaints seem to be directed primarily at operating systems. Microsoft claims that it is important to give advance knowledge of its operating systems so that software companies can develop applications to run under them.

You can be sure that if Microsoft kept its plans completely secret until it was about to release a new product its competitors would complain about that also.

INSIDE KNOWLEDGE

When Microsoft comes up with a new operating system, and issues a software development kit so that its competitors can write applications for it, the competitors complain that Microsoft keeps back some vital details. This gives Microsoft an edge in coming up with better applications programs.

Microsoft, as the creator of an operating system, strictly has no obligation to provide any details to its competitors. This is just a straightforward matter of property rights. However, it is in Microsoft's interest to issue things like software development kits to its competitors so as to enable them to write applications software for that operating system. This is because end-users will be reluctant to purchase, or use, that operating system if there is a restricted amount of software, namely Microsoft's, which can run under it. The more software, generally, that can run under its operating system the more sales of it Microsoft can make.

But if Microsoft chooses to withhold some details of its operating systems that's just tough on its competitors. Microsoft undoubtedly does have an advantage in being both a creator of operating systems and an applications developer. But there is no God-given right that all participants in a market should have equal chances. All that free markets require is that entry be free — that it not be forcibly prevented. Microsoft is dominant at the moment. But dominance can breed complacency. A year ago its spokesmen were somewhat arrogant in regard to reported problems with version 6.0 of MS-DOS. (They subsequently released the more robust version 6.2.) If Microsoft acts like this too often, or churns out a few duff products, it may soon come a cropper.

Concerning Microsoft's "unfair" advantage in the PC applications market, due to the fact that it also supplies the operating systems, it is interesting to note that this advantage was not considered unfair in the pre-Windows "MS-DOS" days. In those days, the likes of Lotus and WordPerfect dominated the mainstream applications market when, on the basis of this argument, Microsoft should have been expected to dominate.

Also, Microsoft did not produce utilities software to make DOS more user-friendly, unlike many companies which did. Even Windows itself can be and has been improved upon by some of the utilities software companies, essentially by making enhancements to Windows on top of Windows. It's almost as though Microsoft invites its competitors to produce better file managers and so on.

Even in regard to mainstream Windows applications (that is, word-processors, spreadsheets and databases) where Microsoft has a huge market presence, it is still the case that its competitors managed to come up with many innovations before Microsoft did. As well as others borrowing ideas from Microsoft, Microsoft also borrowed ideas from others.

THE DOS TAX

Microsoft provides discounts to PC makers on its MS-DOS operating system conditional on their paying a fee to Microsoft for every PC that they ship. This is the much-maligned "per-processor" licensing arrangement — one of the practices that the Justice Department

has ordered them to stop. Competing operating systems vendors resent it because, if the PC manufacturers decide to ship PCs without the MS-DOS operating system, but with one of the competing operating systems, the PC manufacturers must still pay a fee to Microsoft. This makes it not worthwhile for the PC makers to pre-install a competing operating system because, in order to do so, they must pay twice over, once to Microsoft and once to the competitor.

All that is happening here is that Microsoft is offering its operating system for sale on certain terms. If the PC manufacturers agree to such terms then that is just a normal market transaction. If they don't like such terms then they shouldn't agree to them.

PRICING

This charge amounts to the fact that, because Microsoft is profitable, it can set low prices for its applications programs. So what's new? This is probably the most ridiculous of the complaints described by the article. Besides, I have not noticed their prices to be especially low. In the past year, Borland International has charged much lower prices. The fact is that all companies will charge prices on particular products that reflect the competition those products face. Thus Borland International, for a while, charged much higher prices for its Paradox for DOS database than it did for the Windows version, the Windows database market being much tougher.

THE F.U.D. FACTOR

Microsoft, through its dominant position in the industry, spreads "fear, uncertainty and doubt" about its rivals to stop customers from buying rival products.

As far as I can tell it is commonplace for companies in the computer industry, and in industry generally, to slag off each other's products. Every company thinks its products are the best. Since Microsoft is the dominant PC software company its pronouncements can be expected to be paid more attention to than those of a tiny competitor. That's just the way of the world.

Speaking personally, I wish that computer companies, or any companies for that matter, would not slag off each other's products so much. Most of the computer software companies competing in a particular segment of the market do produce products with outstanding features. There rarely seems to be any one product which is better than its competitors in all respects. Companies should praise their own products by all means, but it is not necessary to slag off every one else's. Microsoft is guilty of this, but no more so than anyone else. It might make a change if a company actually complimented a competitor occasionally.

BRAIN-PICKING

Some companies claim that Microsoft has stolen ideas in the course of exploring collaborative agreements. The status of this charge is difficult to assess in specific cases without further evidence. The courts did rule recently in favour of Stac Electronics over claims by the latter that Microsoft had stolen its technology. If that was the case then Microsoft deserved the punishment it got.

But, in general, the market, by its nature, implies that anyone can learn from anyone else. If a particular company produces a computer application which has certain features that are well-received by the consumers these will be there for its competitors to see. And they will tend to copy such features. This seems to be widespread in the computer software industry. It is one thing to reproduce a particular software function, for example, including an autosum facility in a spreadsheet. But it is quite another to literally copy a company's computer code without payment and to use it for commercial gain.

To conclude, then, virtually all the charges levelled at Microsoft by its competitors amount to nothing. I do not mean to imply that everything Microsoft does is nice. But, at least on the evidence of the allegations catalogued in this essay, there is nothing which should be seen as a violation of the freedom of the market. Consequently, there was and is no case for any government action in regard to Microsoft.