



# Did the Microsoft Antitrust Case Pave the Way for the Tech Revolution?

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## Executive Summary

As pressure for stronger competition enforcement in high tech increases, *United States v. Microsoft Corporation* has been elevated as an exemplar case. Yet, in the nearly 20 years since the case was opened, the entire ecosystem changed, undercutting most of the important arguments animating the suit. As many call for stronger antitrust today, it is important to remember four key points:

1. Antitrust authorities were wrong about the trajectory of software technology;
2. Broadband changed distribution channels, giving rise to a new competitive landscape;
3. With fast Internet speeds, firms of all kinds began to face massive downward pricing pressure, which keeps costs low and competition high, and finally;
4. Technology isn't a monolith; Microsoft, Google, Facebook and countless others are part of a dynamic ecological system.

## Introduction

There appears to be a shift toward stronger antitrust enforcement in high tech. Google faces an unprecedented fine from the European Union. [Outlets have proposed](#) breaking up tech giants. And President Trump has vowed to combat concentrated economic power. Some have looked to the *Microsoft* antitrust case in the late 1990s as an exemplar for today's companies. Yet for today's successful tech companies, this case wasn't as important as many proclaim, and doesn't chart a path forward..

Indeed, there are four good reasons to believe that broader tech ecosystem would have grown even if the *Microsoft* case wasn't pursued. For one, antitrust authorities were wrong about the trajectory of software technology. In large part, the expert predictions were misguided because broadband changed distribution channels, helping to foster the open Internet, thus progressing in a way that contradicted what most imagined. As a result of this free exchange of information, every firm began to face massive downward pricing pressure, which would have caught up with Netscape, Microsoft's chief competitor, in the end. Finally, and most important, the technology industry isn't a monolith and Microsoft is just a part of this ecological system. Each company has core competencies leading to differentiation and institutional variation, thus limiting their scope.

## What Was The Microsoft Antitrust Case About?

While the antitrust case against Microsoft is difficult to summarize, the courts and the competition authorities in the United States focused three broad findings, which were summarized in a 205-page "Findings of Fact":

1. Microsoft possessed monopoly power in the operating systems market;
2. Microsoft tried to protect its operating system monopoly, especially in its efforts to stifle competition posed by the Netscape browser; and
3. Microsoft's actions were harmful to innovation and to consumers.

The source of Microsoft's monopoly power came from their "applications barrier to entry." To become a competitor to the Windows Operating System (OS), a new player would need developers to write programs in a new language. However, programmers wouldn't want to write those kinds of programs unless there was an installed user base, so Windows had few competitors.

The introduction of the Netscape browser upset this relationship. According to official findings, Microsoft "paid huge sums of money, and sacrificed many millions more in lost revenue every year, in order to induce firms to take actions that would help increase Internet Explorer's (IE) share of browser usage at Navigator's expense."

Eventually Microsoft settled and implemented a range of remedies. In the intervening years, [some have suggested](#) that *Microsoft* contributed to U.S. growth in the tech sector. Luigi Zingales, a well known finance professor at the University of Chicago, summed the notion when he recently suggested that "People don't fully appreciate that the reason we have Google and Facebook today is because there was an antitrust enforcement action against Microsoft that slowed down the ability of Microsoft to monopolize the internet, the browsers, the data, search, and so on."

### **Experts Were Wrong About Tech's Trajectory**

The rise of the consumer Internet in the mid-1990s took many of the tech giants off guard. Reactions were varied, but most were wrong. Just like [the executives at Apple](#), Bill Gates thought the Internet would zap [Microsoft's software of value](#):

Netscape's strategy is to make Windows and the Apple Macintosh operating system all but irrelevant by building the browser into a full-featured operating system with information browsing. Over time Netscape will add memory management, file systems, security, scheduling, graphics and everything else in Windows that applications require.

The government was more narrow in their case against Microsoft, arguing that Netscape in conjunction with the Java programming language was creating a middleware platform that would bypass the value of Windows. In its simplest definition, middleware can be understood as software that acts an intermediary for other kinds of software. Microsoft perceived Netscape and Java as a threat, according to the case, prompting the company to take the anticompetitive bundling actions.

That wasn't the path. First, the downfall of Microsoft, which was widely suggested at the time, never happened because the Internet added to—rather than took from—the value of the OS. Even Larry Lessig, who worked for the Department of Justice on the case, admitted, "[I blew it on Microsoft.](#)" Second, Linux moved from a niche space to become a fully operational competitor to Windows in business applications. Then in 2009, Apple effectively sparked the smartphone revolution, creating a new space of competition separate from the desktop OS. But most important, Microsoft and others assumed that an entrant would take Microsoft head on, as software developers Sun and Netscape had postured. Instead, Google and Amazon helped to birth the world of fully featured information browsing (what we would now call cloud services). They came about, however, as a

byproduct of other activities—not because of directed competition. In other words, competition didn’t come from a direct source, but an indirect one.

## **Broadband Changed Everything, Including Distribution Channels**

While Netscape’s initial fame came from being widely distributed on the web, only [5 percent](#) of its total installations came from this method. Its sales largely came in the form of agreements either at the retail or corporate level. Among other issues, the case against Microsoft focused on the restrictions the company had placed on computer companies, chip manufacturers, and Internet service providers to leverage those distribution channels for IE, thus squeezing out Netscape. Although the agreements were lifted in 1998 and Netscape still maintained nearly two thirds of the browser market at the time, Microsoft had effectively won the First Browser War because they came to dominate distribution.

The [Second Browser War](#), when Microsoft competed against Netscape’s processor Firefox, started in earnest when broadband speeds were fast enough to change the nature of distribution. Instead of the earlier methods of delivery, which requires a physical copy, consumers began to go online to download browser software in the early 2000s. By the end of the decade when broadband was a widely available resource, competition within the space reached a highpoint where it remains today. [Broadband re-architected the Internet](#), dramatically changing the nature of distribution—not just for browsers, but for video, music, news, and countless other categories of content.

Broadband confounds the story of Microsoft’s antitrust case. With the proliferation of Internet access, information exploded, making search an important function. Few predicted this world. Indeed, AOL, Time Warner, and the content publishing industry [collectively lost billions](#) by investing in closed information ecosystems, thinking that the new web would look [like a beefed up version of cable TV](#). What emerged instead was the open web. Google’s advances in [processing large datasets](#) revolutionized the industry and helped the company position itself as an important hub in the open web. Similarly, [Google’s innovations in server design and manufacturing](#) drove massive changes in the way information distribution occurs on the Internet. The Internet we know now wasn’t the one that was imagined just two decades ago, so it is difficult to think that Microsoft could have stopped a change they largely didn’t think would happen.

## **Downward Pricing Pressure Has Been Relentless**

Netscape’s browser didn’t begin as a free product. Indeed, a part of the case against Microsoft related to the free pricing of its browser. In the parlance of economists, Microsoft competed browsers down to its marginal cost, the cost of producing one more unit. No company wanting to get a new browser out into the mass market today would be able to sell it for any price; they would have to give it away for free and secure funding through other means.

While Microsoft was chided for their pricing strategy, they merely anticipated the decade to follow, which saw intense downward pressure on information prices. The music industry took massive hits because of illegal file sharing. Craigslist competed down the price of classified ads, eating into the margins of newspapers. Wikipedia continues to drive down the cost of encyclopedias. Had Microsoft not acted as they did, Netscape would still have needed to restructure its prices and their revenue streams. A world of cheap and easily accessible information makes organizing that information valuable. Both Facebook and Google grew to fill that niche.

## High Tech Isn't A Single Block

Finally, tech isn't a monolith. Although convergence is occurring, product markets are still delineated among core competencies. Microsoft is a software company with their flagship Windows product driving sales. Facebook and Google, on the other hand, are platforms that monetize through advertising networks. The revenue streams and core technologies have driven the organizational form of each of the companies. As anyone who works in business will tell you, changing the direction of a company is difficult since it requires wholly new ways of organizing.

Indeed, Microsoft's inability to monopolize a number of different markets highlights the difficulty and the competition that exists in the space. Nearly a year before Google was founded, MSN Search was launched, using technology from another company. But it failed to find success like Google because it wasn't [a priority investment until 2009](#). MSN Chat did not [get buy-in](#) like AOL Instant Messenger, and [MSN Dialup](#) could not stop the shift to broadband. Google, too, has had missteps; Wikipedia even [has a page](#) dedicated to products that it sent to the dustbin. The academic literature contains tomes of research on the difficulty of shifting core businesses practices, from Clayton Christensen's "[Innovators Dilemma](#)" to Larry Downes and Paul Nunes "[Big Bang Disruption](#)."

## Conclusion

The *Microsoft* antitrust case solidified a view about the nature of high tech. Companies leverage their power to lock in consumers to related products. Thus, outcomes are arbitrary. But tech success isn't based on contingency; it's based on competition. When viewed within this context, no one company could have stopped all of it. Linux and the open source community dramatically shifted enterprise applications and expectations of software development, filling in for Netscape. Mobile tech fractured the OS market, while broadband opened it up to new sources of distribution. With these new methods of distribution, information exchange flourished, making organization and search an important function. In turn, companies innovated in distribution and delivery, opening up video. Tech dominates [the charts](#) for the most money spent on research and development for good reason. Competition is cutthroat and relentless, so it is difficult for one company to grab hold of it for long.