

# **In Defense of Monopoly**

## **The Ironies of Antitrust Concerns over Microsoft, Yahoo and Google**

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No sooner had Microsoft announced its giga-billion dollar bid for internet rival Yahoo than antitrust overlords at the Justice Department and in Congress announced their intentions to investigate the Microsoft/Yahoo union as a “monopoly” threat. Why? Both companies are big, and their merger could give the combined company greater market power to control the future of the internet.

Never mind that Google’s internet search and ad market shares dwarf the combined market shares of Microsoft and Yahoo. Having learned their Econ 101 lessons well, antitrust enforcers *know* that “bigness is badness,” because bigness spells monopoly. A monopoly’s market dominance enables it to control market supply with the goal of elevating its prices above competitive levels on its way to garnering monopoly profits – *according to the monopoly theory the antitrust enforcers studied.*

Conventional monopoly theory, however, is a poor guide for antitrust investigations. Little is ever noted in monopoly theory about the good that firms do as they expand from entrepreneurial embryos to global behemoths. Indeed, how could firms gain such market dominance as to be (mis)characterized as “monopolies” if all they did was restrict production to push up prices and profits? Restricted production can hardly lead to expanded sales.

A quarter century ago Microsoft was virtually unknown. A mere decade ago Google was equally unknown. But in 1998, Microsoft so dominated its market that the Justice Department

lawyers hauled the company (at the behest of Microsoft's competitors) into federal court for antitrust violations because it wanted to *expand* its market dominance by *giving away* its internet browser – hardly what conventional monopoly theory suggests monopolies can be expected to do.

The Justice Department lawyers claimed that Microsoft, if left unchecked, would control the future of the internet. Yet at that moment, unbeknownst to the lawyers, Google's founders were working in some proverbial (but virtual) “garage” on a new big idea -- an internet search engine that would outperform all others. Ironically, by integrating its browser into Windows and, thus, making internet browsing ubiquitous, Microsoft made Google's considerable success, and market value, possible.

Also at that time, Apple was floundering in the personal computer market, and the cell phone industry was a fledgling. Instant messaging was a pipedream. Ten years later, consumers have gobbled up Apple's sleek designs for iPods, earning the company three-fourths of all MP3 sales and the characterization of a (threatening) monopoly. And a growing percentage of consumers use cell phones, not computers, for internet searches and instant messaging, outcomes that never occurred to antitrust enforcers a decade ago.

Nevertheless, seeking to play catch-up with Google in internet business, Microsoft has drawn the threat of another antitrust investigation in its bid for Yahoo. Now, Google is lobbying for an antitrust investigation of Microsoft's Yahoo bid. Surprise, surprise. If any dominant company were truly acting like a *monopoly* (restricting production to raise its price), would its competitors really want the courts to force the dominant company to lower its price and expand its market share, and make their market even more competitive? The question itself suggests how antitrust laws can be – has been and continues to be -- misused.

Policy makers need to think about what dominant firms *have done well* to become the market forces they are – things they might never have done had antitrust enforcers been able to squelch all potential for market dominance and monopoly profits. Just think of how much richer consumers are today *because* Microsoft, Google, and Apple came to dominate their markets. Suppose they had remained small and inconsequential market players?

With antitrust law applied to *existing* product markets, enforcers will always be myopic. The enforcers are well schooled in how the entry of new producers of established products can press market prices downward and production levels upward. But they don't seem to be able to understand how the prospects of monopoly profits can inspire far more meaningful and threatening competition from an array of entrepreneurs enticed to come up with new ideas and the resulting products that are now scarcely imaginable.

Although the success of dominant firms may bar new producers from old-product markets, it is damn near impossible to bar new ideas incorporated into new products – that is, when established producers of old products truly act like monopolies (that is, restrict their market shares to raise their prices and profits).

Not too long ago, Microsoft, Google, and Apple had new ideas that made them successful. Consider all the new ideas currently emerging, that when translated into new products, will unseat today's dominant firms and make today's antitrust threats seem as misguided as so many of the antitrust misadventures of the past.

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