

ENRICHMENT Chapter 7

IS IT A MONOPOLY?

During the late 1990s the U.S. government accused the computer software giant Microsoft of monopolistic business practices and brought suit against the company. In November 1999, the federal court ruled in favor of the government, agreeing that Microsoft was a monopoly and ordering the breakup of the company. Microsoft appealed the federal court ruling. In 2001, an appeals court overturned the ruling, but Microsoft continued to face allegations that it was a monopoly. In 2004 it was fined \$611 million by the European Union for near-monopoly practices.

Directions: Read the following excerpt from a newspaper article written after the ruling. Then answer the questions that follow on a separate piece of paper.

Ever since 1890, when Congress passed the Sherman Act, the antitrust laws have sought to protect consumers and prevent the evils of concentrated economic power. No company seems to pose those dangers so starkly today as Microsoft. Yet, the case against Microsoft still isn't made, even after Judge Thomas Penfield Jackson's denunciation of the company. The trouble is that Jackson's opinion doesn't show how Microsoft's brutal competitive behavior has hurt consumers.

Companies compete, after all, to defeat their rivals. The social harm arises only if consumers suffer from excess economic power. Despite months of bad trial publicity and Jackson's scathing decision, most Americans still doubt the government's antitrust case. A Gallup poll taken after the ruling found that, by a 67 to 16 percent margin, people have a favorable view of Microsoft. Asked whether the company should be broken up, respondents objected by 54 to 35 percent. . . .

Of course, it's hard to sympathize with a company as rich and relentless as Microsoft. It's correctly accused of using its huge market power to cripple "Navigator," the Internet browser from Netscape. Windows (and its cousins) control 97 percent of the market for PC operating system software. (An operating system performs basic computer functions; a browser locates Internet

sites.) Because computer makers—the Dells and IBMs—couldn't sell PCs without Windows, Microsoft forced them to favor its browser, Explorer, over Navigator.

This was unfair. Computer-makers that cooperated got price discounts on Windows. Those that balked paid higher prices and got technical information later. But were consumers harmed?

Not much. Microsoft gave away Explorer. Netscape had to follow suit. The initial version of Explorer in July 1995 was technically inferior to Navigator. By late 1996, Explorer was almost equal. Even Jackson concedes that Navigator's loss of technical superiority was critical to Microsoft's success. Netscape still had ways to distribute Navigator, but customers had less reason to want it. By late summer 1998, Navigator's market share had dropped to about 50 percent. It may be lower now, and Netscape has merged into America Online. . . .

. . . What needs to be recalled is that Microsoft's competitors pushed the government for this antitrust suit. They will gain if Microsoft loses. But there is a distinction between protecting consumers and protecting competitors. The record so far suggests that it's being lost.

Source: "But Did Microsoft Actually Hurt Consumers?" by Robert J. Samuelson, *The Washington Post*, November 17, 1999

1. What does the author think about the court's ruling in the Microsoft case?
2. What does the author believe must occur for a company to be in violation of the antitrust laws?
3. What evidence exists for the judge's ruling that Microsoft is a monopoly?
4. Do you think that Microsoft is or is not a monopoly? If so, do you think it may be a natural monopoly? Explain your answer.