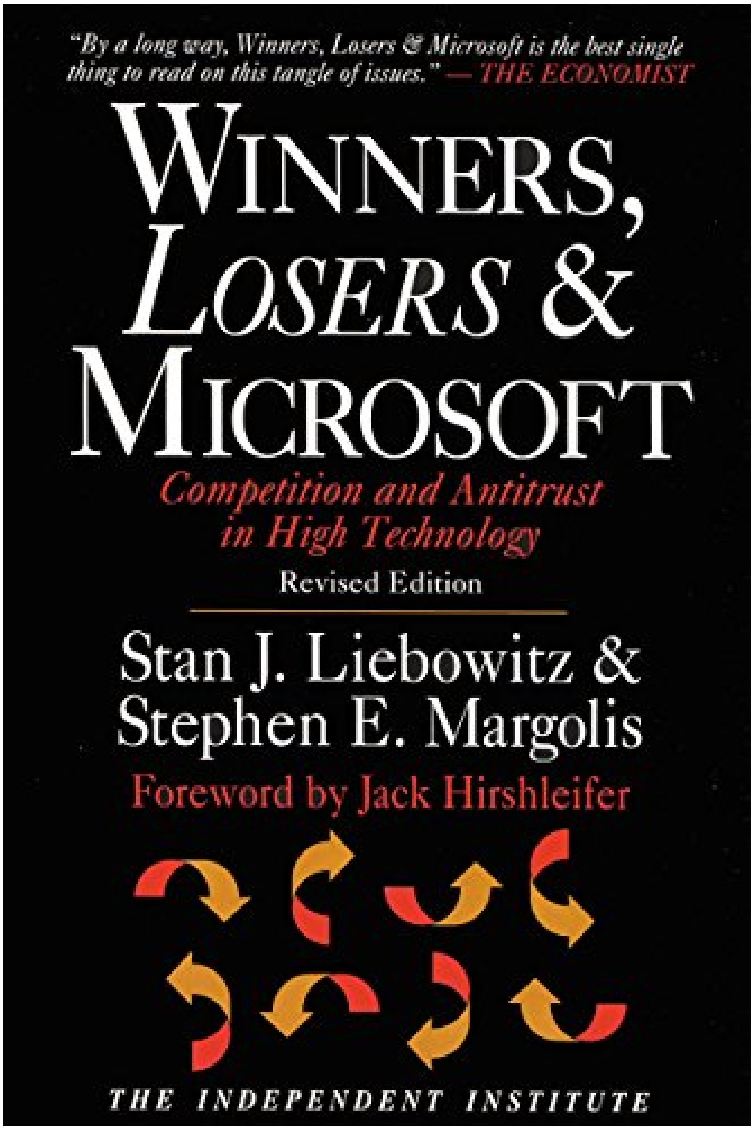
Winners, Losers Microsoft: Competition and Antitrust in High Technology

Stan J. Liebowitz, Stephen E. Margolis



Stan J. Liebowitz, Stephen E. Margolis : Winners, Losers Microsoft: Competition and Antitrust in High Technology before purchasing it in order to gage whether or not it would be worth my time, and all praised Winners, Losers Microsoft: Competition and Antitrust in High Technology:

1 of 1 people found the following review helpful. Winners, Losers, and MicrosoftBy Robert GavioliThis book presents a compelling discussion of economic theory and offers scrutiny of several flawed theories of market failure with specific regard to Microsoft and the government's antitrust case against the software giant. Winners, Losers, and

Microsoft gives noteworthy insight into the underlying assumptions of these deficient economic theories as well as into the perceptions used as their foundation of evidence. Leibowitz and Margolis point out crucial flaws in these theories which are widely used today by some economists. They also seek to destroy the government's evidence for Microsoft exhibiting a damaging monopoly role in the software industry. The authors' assertion is that markets cannot be oversimplified through questionable assumptions and faulty evidence in order to come to a convincing theory of market failure. Their main claim is simply that certain technologies win out over others in time because they are of superior quality. The text begins by offering up the economic theories that are later attempted to be disproved. The main topic of contention is the fact that some economists, especially those involved in the antitrust case against Microsoft, claim that market failure is possible in new technology industries because consumers are forced into buying inferior technologies because of network effects, the notion that consumers' buying habits are heavily influenced by the number of other consumers using that product. Further detail is explained concerning a strong kind of network effect which is also claimed to lead to market failure, a standard. Another confused claim by some economists is that Microsoft's elevated position in the software industry is detrimental to competition and a case of monopolistic harm being done, disregarding the fact that Microsoft could have had the better product. Another issue that the authors question is that economic theories of path dependence are strong support for the idea of market failure. The authors argue that there is a very real possibility that such models do not translate well to real-world situations and market processes. They go on to point out that there would be many more signs and proofs of market failure were there any validity to that theory. They explain that path dependence theories rely on evidence from past technologies that isn't reliable or even accurately reported. It is also mentioned that economics literature gives multiple inconsistent meanings to path dependence and that a system to classify path dependence at three levels is possibly appropriate. Liebowitz and Margolis define first degree path dependence as making the right predictions about the future but those decisions seeming erroneous at points along the way, but essentially no harm occurring. Second degree path dependence is described as making the wrong prediction about the future but you did so from the standpoint in which you made the right decision given the available information. Finally, third degree path dependence involves knowing that you are making the wrong or inefficient decision but still making that choice anyway. It is this third and most extreme view of path dependence that supports claims for market failure. Past technologies that are said to prove the existence of this market failure are then discussed, including the QWERTY keyboard and the VHS video system. The QWERTY keyboard was said to be an inferior technology that was harder on the user and led to slower typing speeds. The main competitor to the QWERTY, or Universal, keyboard was the Dvorak Simplified Keyboard (DSK) that was introduced in 1936. August Dvorak claimed to have designed a keyboard that he supposedly proved was easier to learn and that reduced finger movement. The QWERTY keyboard, having been patented in 1868, was designed with the keys arranged in such a way that the typewriter for which it was designed operated the best. The main piece of evidence that economists and proponents of market failure (lock in) use to support this case as being market failure is a 1944 Navy study conducted to compare typing speeds between the two types of keyboards. This study, once carefully examined, reported flawed and incomplete data yet came to a decisive conclusion. This study was also believed to have been done by Dvorak himself, an important piece of evidence. Yet somehow this data is used consistently to this day as evidence that the allegedly inferior QWERTY keyboard should have never prevailed over the DSK. Also, most of the other body of evidence for the supposed preeminence of the DSK has proven to be based on anecdotal research and inconclusive studies. The evidence for the superiority of Beta over VHS is another example of faulty reporting of research leading to misconceptions about the technology that is higher in quality. This text points out that the quality differences between Beta and VHS weren't as great as may have been reported and that, despite the slightly better picture quality, Beta lacked another feature (longer tape length) that most consumers wanted at the time of their heated competition and possessed attributes that weren't necessary to the average consumer (better editing and special effects functionality). Their conclusions on this matter were that market failure couldn't be said to have happened because the better product won the battle (VHS) and that maybe Beta was better suited for broadcasters and not the average home user. The next section of the book addresses the accusations that Microsoft demonstrated injurious monopoly actions through elevating prices and impeding superior technologies from achieving market share because of lock-in network effects. The authors show evidence through software industry price data that in the markets where Microsoft achieved control of a majority of the market share that prices actually tended to decline in every case. This evidence overrules the monopolistic accusations of Microsoft elevating prices due to control of the market by network effects. It is stated from the assembled data that, in markets where Microsoft competes, consumers have seen price declines of approximately 60%. Also taken into account is the notion that tipping, the idea that market share should grow at an ever increasing rate due to its increased attractiveness to consumers, can occur in markets where there are significant network effects. In fact, where Microsoft has dominated the market it has been shown to steadily grow to that dominance and not the sudden jumps and accelerations expected from tipping. The analysis of the spreadsheet, word processor, desktop publishing, and online services markets was intriguing because all of the criticism and accusations of Microsoft in each of these markets seems to lack any shred of evidence. The authors' contentions are based on credible economic patterns and widely accepted principles. Through examining market share (based on revenue) and product quality (based on a multitude of reviews), it is shown that there is convincing substantiation for the claims that Microsoft dominated the markets in which it had higher quality products and did not achieve significant market share when reviews showed Microsoft's product quality lacking. These conclusions contradict the accusations of lock-in due to network effects because Microsoft's product quality was consistently rated the best when it achieved a large market share, not the anecdote that Microsoft had inferior products but succeeded due to blocking competition. The authors make convincing arguments repeatedly for the fact that the best product will come out on top in a laissez-faire economy and that this is exactly what happened time and time again with Microsoft. Following this whole discussion is the appendices of the text which offer analysis of the charges and the rulings against Microsoft by the government. There are repeated instances of the Justice Department using economists Franklin Fisher, Brian Arthur, and Garth Saloner to instill the belief of network effects, lock-in, and path dependence into the judge and jury. Disproving this evidence might have been Microsoft's best chance at saving their case considering that these theories and economic conditions are completely theoretical and have little basis in fact. Also mentioned is the fact that the Department of Justice discredited many of Microsoft's witnesses and managers, not helping the defense' dismal situation. The eventual ruling by Judge Jackson reflected the nature of Microsoft's legal defense - extremely ineffective. Jackson ruled ultimately that Microsoft was guilty of all antitrust charges brought against it but one, almost completely favoring the Department of Justice' opinion. What was the most disturbing and surprising to me was the fact that Judge Jackson implied in later interviews that he made his decision based not on the content of what the defense had to argue but on the fact that many had been discredited by their untruthfulness. Jackson also made very few changes to the government's proposed solution to the Microsoft problem because he didn't feel competent to recommend any solution himself. I think this only highlighted the fact that Judge Jackson didn't have enough knowledge or understanding of economics to rule effectively or fairly on the case, simply going by whatever the government had to recommend.1 of 1 people found the following review helpful. An incisive book shedding light far beyond the MSFT caseBy Max MoreThis book is unfortunately titled as it is really primarily about bringing real data and rigor to bear on many of the conventional "stories" about the economics of the new economy, rather than dwelling on the Microsoft antitrust situation. Clearly, the new economy tends to be characterized by more network effects, increasing returns to scale, and general "winner-take-all" effects than the historical economy. However, certain stories about early lock-in effects of technologies that are inferior, but that by luck got the early lead, have been uncritically passed from author to author. Examples are the QWERTY keyboard, VHS vs Betamax, Windows vs Apple, etc. Liebowitz and Margolis show that most of these stories do not hold up under close examination -- that in fact, these are not examples of the market failing to take the "right path". Actually, the market generally seems to get it right. This book is also the best we have seen in its treatment of the overall economics of information technology standards.11 of 13 people found the following review helpful. Great BookBy A CustomerThere are a lot of myths about why products succeed or fail. Many claim that customers get "locked into" products simply because they arrive on the scene first even when much better products are available. Some claim that Microsoft has taken over different markets despite inferior software simply because of the monopoly that it has in operating systems. Liebowitz and Margolis provide straightforward, convincing, and imaginative evidence that these claims are false.It is amazing how many stories like the superiority of the DVORAK keyboard hang around for years with no supporting evidence. They make for great stories, but as these authors point out they are false.If you want to learn about how markets work, read this book.Finally, the previous commentor's remarks about these authors being bought off is offensive and false. Liebowitz and Margolis wrote about these issues a decade before Microsoft became involved in its current legal problems. Anyone who reads this book will realize that Microsoft would have been a lot better off if they had hired them rather than the lame effort they got from the MIT business school dean.

Few issues in high technology are as divisive as the current debate over competition, innovation, and antitrust. Analyzing famous examples of economic ldquo;lock-inrdquo; by dominant corporations of supposedly inferior products, this book makes the case that free markets in high technology industry deliver better products to consumers, at lower prices, without government intervention. This publication's careful scholarship, well-founded hypotheses, and refutations of previously accepted theoriesmdash;extending far beyond the Microsoft casemdash;make this publication a vital piece of understanding for the future of technology and economics.

.com In Winners, Losers Microsoft, two top economists punch some big holes in the government's antitrust case against the software behemoth. Stan J. Liebowitz and Stephen E. Margolis argue that government lawyers are dead wrong to say that consumers are being forced to accept inferior standards and high prices because of Microsoft's hegemony. With some well-documented and original research, the authors conclude that Microsoft is as successful as it is for a simple reason: good products win. "Whether they are lowly mousetraps or high-tech networks, better products prevail in the marketplace. People choose what they want, and what they want survives, at least for a while," they write. The authors also challenge the economists who believe that when it comes to technology, inferior standards get locked in because of unfair corporate actions or irrational consumer behavior. Through cogent analysis, Liebowitz and Margolis tear apart the two key examples used by these other economists: the VHS videocassette format and the so-called QWERTY typewriter keyboard layout. The authors argue that those formats dominate today because they truly were as good as, if not better than, their competitors, the Beta videocassette and Dvorak keyboard. While most of the book is theoretical and aimed toward those interested in public policy and economics, Winners, Losers Microsoft can also be an eye opener for anyone who wants to learn more about the antitrust case against the company. --Dan Ring "Winners, Losers Microsoft gives 'path dependence' a cold shower and sheds much needed empirical light on the success story we call Microsoft. The book is a pleasure to read . . . If you want to know the real reason we use QWERTY instead of the Dvorak keyboard and why we watch videos on VHS instead of Beta, read this book." -- George Bittlingmayer, Professor of Economics Finance, Unversity of California, Davis"Winners, Losers Microsoft is instructive for all participants--the judge, defendants, plaintiffs and experts in the DOJ vs. Microsoft tragicomedy. For the rest of us, including Microsoft cusotmers and competitors, it is not too late to learn, as well as be entertained by, the Liebowitz-Margolis explanation and histories of several presumptive 'monopolies' of 'networks' and 'entrenched universal users.'" -- Armen A. Alchian, Professor of Economics, UCLA"innovative and utterly convincing Their dismantling of commonly accepted myths about the QWERTY typewriter keyboard and the VHS-versus-Beta video struggle makes fascinating and illuminating reading. They conclude that Microsoft doesn't dominate software markets by cheating, but by creating products that work better than others." -- Mark Henricks, American Way Magazine"the two economists did what no one who repeated the story seems to have ever done -- i.e., a little digging. The professors checked out this story.. by spending a lot of time in the library. They read every software product review from the past 15 years they could find and came up with a different conclusion. Microsoft, their evidence says, wins market battles (word processors, spreadsheets, browsers) when its products are better, and loses such battles (financial software, on-line services, palm-sized computers) when they aren't. The two authors have gone a long way toward reshaping the Microsoft debate. Henceforth, any judges, economists, pundits or journalists who discuss Microsoft or technology lock-in -- much less repeat the crusty old Qwerty tale -- without first dealing with the Liebowitz-Margolis critique should have their wrists soundly slapped." -- Lee Gomes, Wall Street JournalThere are lies, damned lies and statistics, as Benjamin Disraeli once noted. Respected economists Stan Liebowitz and Stephen Margolis use plenty of statistics to examine the key tenets surrounding the Microsoft antitrust trial. Their conclusion - that the market rewards companies that make the best products, period, and that the government should butt out - is well argued.Their research makes a compelling case that Microsoft wins because its products are better built, better marketed and better liked, but their work under the auspices of the Independent Institute, a libertarian think tank in Oakland, Calif., is tainted by the recent disclosure in the New York Times that Microsoft secretly paid for prominent newspaper ads this summer in which the institute and 240 academic experts defended Microsoft against its antitrust-case rivals. The software giant also allegedly covered the first-class travel expenses of Independent Institute President David Theroux to attend a press conference the day the ads ran. (Theroux vigorously contested both these points last week in the Los Angeles Times.)When asked by the New York Times what he thought of the Microsoft payments, Liebowitz, a professor of economics at the University of Texas at Dallas, said that while he wasn't aware of them, "it doesn't matter to me." It's a puzzling statement coming from someone who purports to offer an objective assessment of Microsoft.These issues cannot help but cause readers to scrutinize Winners, Losers and Microsoft for signs of bias, if not lies, among the statistics. It's not an easy task, though. Much of the book veers away from the Microsoft case and into a dense theoretical thicket of antitrust case history, some of which the authors had published nine years ago in the Journal of Law and Economics, especially their famous debunking of the QWERTY keyboard myth.The authors argue that their voluminous research proves that consumers don't get "locked in" to inferior standards, a la the popular economic theory of "network effects." Despite QWERTY's faults, they say, it never really had a viable challenger and thus deserves to be the standard until something better comes along.Liebowitz and Margolis also go to great lengths to show that another well-worn "lock-in" parable - the victory of the VHS home-video format over Beta - was a story in which superior picture quality was not great enough to overcome Beta's shortcomings, such as limited tape length.The authors later move on to recent software markets, arguing that one product's superior quality, aggressive pricing and innovative development can often quickly and decisively unseat a previously entrenched leader. When Microsoft's products are better than the competition's, the authors argue, it does the unseating, as the company did with its Web browser, word processor and spreadsheet applications. When its products are second-rate, it fails to take over, as happened with financial software and online services. What's more, they show that Microsoft's entry into a market almost always lowers prices across the board.The authors make no bones about the book's goal: "Governments can help ensure that consumers get the best products by keeping government impediments out of the way of entrepreneurs competing to establish their mousetraps in the marketplace." Having established that the theory of network effects, used by Microsoft's accusers to show how the company defends and extends its monopoly power, only rewards good products, the authors close by defending the software giant against a host of accusations: Microsoft's monopoly stifles innovation; it's out to destroy competitors; it must not be allowed to control the PC desktop, and so on.The book's only criticism of Gates and company is saved for the defense team, whose mishandled witnesses and bungled videotaped presentations are called "staggering public relations fiascoes." If Judge Thomas Jackson rules against Microsoft and is ultimately backed by the Supreme Court, the company's lawyers will be responsible, say Liebowitz and Margolis, for letting an unworthy economic theory - network effects - rule the day, and perhaps the next century, of antitrust legislation.It's ironic that the arguments in Winners, Losers and Microsoft, as well reasoned as they might be, are also marred by poor publicity. Bad decisions, such as the Independent Institute's acceptance of what it now admits is 8 percent of its budget last year from Microsoft, may seem to compromise its researchers' methodology. But as Microsoft's marketers surely know, perception is sometimes as potent as reality.-Alex Lash -- From The Industry StandardAbout the AuthorStan J. Liebowitz is a professor of managerial economics and the academic associate dean in the school of management at the University of Texas at Dallas. He has written on the topics of copyright and technology, broadcasting regulation, pricing practices, and mortgage discrimination. Stephen E. Margolis is a professor of economics and the head of the economics department in the college of management at North Carolina State University. His research includes work on housing markets, pricing of medical services, monopolistic competition, and economic efficiency in the law. They have jointly written numerous scholarly articles on the subjects of network effects and lock-in that have appeared in the Journal of Law, Economics and Organization; Harvard Journal of Law and Technology; and the Journal of Law and Economics. Their more popular articles have been published in the Christian Science Monitor, Investorrsquo;s Business Daily, and the Wall Street Journal.