

Economics essay: comparison of two monopolists in a competitive market

According to Webster, to have a monopoly is to have exclusive ownership, possession, or control. The following essay is an examination of Microsoft in comparison to this definition and another commonly known monopoly, Standard Oil. Also attention will be given to the necessary role of and problems with monopolies. Competitive Market vs. Monopoly

A competitive market consists of many buyers and sellers. Markets thrive because an equilibrium price is established through natural competition and no single buyer or seller can affect that price. Instead both buyer and seller must take the price given by the market based on the dynamics of supply and demand. This competition is healthy and necessary to the economy because it regulates price, production, promotes and motivates innovation and improvement. In comparison, a monopoly dictates its price and quantity based on demand. It has the potential to influence prices and does so to increase profits. Regarding production, a monopolist produces below the demand curve in order to charge higher prices to consumers. Less production and higher prices clearly illustrate the inefficiency of a monopoly and the harm it may cause to the economy.

The Sherman Anti-Trust Act of 1890

In order to prevent a handful of monopolies and trusts (another form of monopolization) from controlling the economy, Congress passed the Sherman Anti-Trust Act of 1890. Signed into law by President Benjamin Harrison on July 2, 1890, the law consists of two sections.

Section 1 primarily prohibits any contract or action whose aim is an unreasonable restraint on trade or commerce. Violates of Section 2 result from misuse or abuse of market power in order to gain or maintain a monopoly. Such actions generally target existing competition or prevent the rise of future competitors. Some examples of such actions are refusal to sell to a particular customer in order to eliminate competition, lowering prices below cost (price war), and contracts that close channels of distribution or supplies to competitors. Though its interpretation is not particularly clear, The Sherman Anti-Trust Act is the standard used for determining trade misconduct and violates.

Standard Oil

January 2, 1882 marked the formation of the Standard Oil Trust. It was the invention of attorney Samuel Dodd and fuelled by the control of John D. Rockefeller. Rockefeller began by concentrating on the refining business. He then expanded to other aspects of the oil industry to include extraction, sales, transportation, research, marketing even to the point of barrel manufacturing. The practices that brought Standard Oil to its peak became the evidence of its demise. Rockefeller kept a low profile on his company earnings and hid the profits by reinvesting. Other acts were more covert and damaging. Standard Oil had agreements with the railroads in which the railroad provided not only a lower transportation price but also gave a Standard Oil a kickback from the higher prices charged to competitors. The railroad also provided information regarding competitors shipments. This greatly aided Standard Oil in its ability to wage lengthy price wars undercutting the competition. Prices were then raised high enough to maximize profit without attracting new competitors. Also reported were acts of sabotage and bribery. When pipelines became a threat to Standard Oil, Rockefeller bought land to intercept piping routes. Standard Oil continued its consolidation and eventually made any form of a competitive challenge impossible. In 1906, the federal government launched a lawsuit against the Standard

Oil Trust based on its practices and abuses. In 1911, Standard Oil was found in violation of the Sherman Anti-Trust Act of 1890 and was soon dismantled.

Microsoft

Software is to the information age as oil was to the industrial age and as Standard Oil represented its industry so stands Microsoft nearly one hundred years later. Founded in 1975 by Paul Allen and Chairman Bill Gates, Microsoft's Windows operating system is currently being used on 90 percent of the world's personal computers. As early as 1989, The Federal Trade Commission began an antitrust investigation of Microsoft. The agency alleged that Microsoft's pricing policies illegally constrained competition and that it deliberately placed programming codes in its operating system to hinder competing applications. In 1994, though Microsoft claiming it had done no wrong, reached an agreement. The basis of which involved Microsoft's per processor licensing agreements. In order to use the Microsoft platform and to receive a discounted price, hardware vendors agreed to pay royalties to Microsoft for each personal computer containing a certain type of processor, even if the computer used a different operating platform. Microsoft is on trial again. The Department of Justice claiming that Microsoft has violated Sections 1 and 2 of the Sherman Anti-Trust Act. However, there are two sides to the story. CEO Bill Gates is claiming that his company is innocent. Gates and others claim Microsoft's dominance is result of product superiority and continued innovation not conspiracy. Asserting that rapid change in the technology industry makes creating and maintaining the position of a monopoly impossible. The heart of the case, however, does not question the market share held by Microsoft but how the company obtained that share and the practices involved dealing with its competitors. Among those testifying against Microsoft, are competitors Netscape, who allege that Microsoft illegally hindered Netscape's method of distributing its browser Navigator, Sun Microsystems, who claim Microsoft introduced programming codes to "pollute" its language Java, similar claims were made by Real Networks CEO Rob Glaser. Glaser claimed that Microsoft intentionally disabled his company's software to eliminate the competition. Should the Justice Department win, one concession demanded by the government would be that Microsoft either dissolves the integration between its operating system Windows98 and browser Internet Explorer or to include Netscape's browser along with the package. Also among other sanctions Microsoft would have to cancel any exclusionary contracts. Microsoft maintains its innocence in light of these charges and states that its practices are no different than that of its competitors. According to surveys and polls, consumer support is in favour of Microsoft and many believe that government intervention will cause more harm to the industry than good.

Conclusion

The government both benefits from and allows natural monopolies to exist, in part to encourage research and development. Some analysts claim that if the government wins technological growth and innovation will decrease drastically. Others believe that Microsoft has become too powerful, resembling its 100-year predecessor Standard Oil by stifling competition and costing the consumer a great deal through its production practices and pricing. Is Microsoft guilty of violating The Sherman-Anti Trust Act of 1890, or are Microsoft's competitors lacking quality products and innovation? Whatever the court's ruling, due to the enormous market share held by Microsoft, the outcome will be felt by all.

(word count 1120)