Antitrust and Platforms: Lessons from the Microsoft Cases and a Look Forward

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Antitrust and Platforms: A Hot Topic

- Antitrust scrutiny in platforms is in the news
  - EU cases against Google search, Android, and advertising
  - Practices of standard setting organizations
  - Increasing focus in Japan, U.S., EU, Korea, India, etc.

- Economics of platforms are still not well understood
  - Network economics are often oversimplified into simple policy inferences
  - Literature showing the value of platforms says little about how they should be structured
Refining Our Thinking About Platforms and Market Power

- Network externalities do not always lead to lock in
  - Joining a network increases the value of the new network
  - Leaving a network decreases the value of the old network
  - Impact depends on which effect dominates
  - Dynamics can lead to excess inertia or excess momentum

- Platforms benefit complementary markets
  - Create positive externalities for complementary markets
  - Bresnahan/Tratjenberg on general purpose technologies: vertical integration would internalize these externalities
Refining Our Thinking About Platforms and Market Power

- Proprietary standards can speed adoption/innovation
  - Adoption of optimal technology: Katz and Shapiro (1986)
  - Stewardship of innovation: Shapiro and Varian (1998)

- Platforms precommit to a certain architecture
  - Architectures necessarily limits some freedom
  - Third-party developers have incentive to cut corners
  - Uses depend on testing/governance, not the honor system

- Platforms depend on some type of restrictions
  (e.g., Chicago Board of Trade)
Case Study: Open Source Operating Systems (Yoo, 2016)

- Examples: Unix, Symbian, Linux, Android

- Open source platforms are a contradiction in terms
  - Open source = total freedom
  - Platform = rigid structure

- Competition law should balance multiple concerns
  - Stability as an enabler of third-party innovation
  - Testing/governance as a facilitator of third-party provision
  - Change as a cause of innovation vs. fragmentation
Analysis of *United States v. Microsoft*

<table>
<thead>
<tr>
<th>Case</th>
<th>Theory</th>
<th>Evidence</th>
<th>Remedy</th>
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<tbody>
<tr>
<td>Plaintiff’s case</td>
<td>MS created IE and Windows-specific Java to impede OS entry</td>
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<td>Vertically divide MS into OS and applications cos.</td>
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## Analysis of *United States v. Microsoft*

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<td>Protecting OS monopoly</td>
<td>MS created IE and Windows-specific Java to impede OS entry</td>
<td>Netscape plus Java is the best entry path into OS market</td>
<td>Limit MS share of future OS market or require divestiture of IE</td>
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<td>Reducing competition for browsers</td>
<td>MS monopolized market for distribution of browsers</td>
<td>MS used OEM &amp; ISP contracts to kill Netscape</td>
<td>Eliminate/limit exclusivity contracts for browsers</td>
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<td>Preventing applications lock-in</td>
<td>Protect Windows by refusing to create Office for Linux or Internet</td>
<td>Office is the killer app; MS favored its own applications</td>
<td>Vertically divide MS into OS and applications cos.</td>
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Market for Media Players

Streaming Media Players - Unique Users (in thousands) from November 2003 to March 2011

Source: The Nielsen Company 2011
Implications

- Platforms necessarily balance freedom & restrictions
- Competition law should focus on the reasonableness of restrictions in light of relevant tradeoffs
- Focus should be on consumers, not competitors
- Enforcement officials should based decisions on evidence, not theoretical inferences
- Theory, evidence, and remedies should be internally consistent, and remedies should be effective