BY ROBERT J. BARRO

WHY THE ANTITRUST COPS SHOULD LAY OFF HIGH TECH

JAY REED

FAST-PACED: Trustbusters are forgetting how fluid the industry is-and so are the rivals of Intel and Microsoft, who should quit whining

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In capitalism, which works better than any other known economic system, the reward for delivering good products at low costs is large profits. To secure these profits, businesses typically have to innovate in ways that lead temporarily to monopoly power over new products or methods of production. In a well-functioning free enterprise system, businesses must be allowed to enjoy these profits. This incentive principle is recognized, for instance, in the patent system for inventions. But the idea has much broader applications, and the government should not step in to limit profits at the first sign of monopoly power.

Yet sometimes, as with IBM in the past and now Microsoft Corp. and Intel Corp., the government's response to business success is an antitrust action. The usual rationale is that such action promotes competition, which leads to lower prices and faster innovation. As a rule, however, it is a suspect policy that tries to promote future innovation by limiting the reward for past successes. The irony is that no sector has ever experienced price declines and product improvements as fast as the computer industry. So the government's argument-that if something is not done to limit monopoly power, innovation will be con-. strained, and future prices will be excessive-is entirely hypothetical.

The Federal Trade Commission's action against Intel is foolish because maintaining market power in computer chips depends on continued innovation at a rapid pace. Even with these innovations, Intel is being seriously challenged by competitors at the low and high ends of the market. The complaint about Microsoft's Office software by 20 state attorneys general is similarly unconvincing. This part of the states' antitrust action recently was dropped in response to a June 23 ruling by a federal appeals court in Washington, D. C. The court undercut much of the Justice Dept.'s complaint against Microsoft by saying that the government had no useful role to play in software design.

The interesting parts of the Microsoft case revolve around two areas: the importance of operating systems and the potential extension of a dominant operating system to the Internet. These areas involve networks and industry standards, which feature important economies of scale. If the industry were static, these elements might allow a single large company to capture long-term monopoly power-and that would raise legitimate antitrust concerns.

However, the remarkable fluidity of the computer business often has been noted. No one has any idea about the form or role of operating systems five or 10 years from now. For instance, Sun Microsystems Inc. is pushing an Internet-based network system as a platform that eventually may overthrow the Windows type of operating system. Given this dynamism, any remedy that the government could propose for today's marketplace, such as insisting that Microsoft's Windows system provide equal access to Netscape Communications Corp.'s Web browser or Lotus Development Corp.'s Smart Suite, would hardly convey any real benefits to consumers.

THE IBM LESSON In fact, the government's intervention could be influential only if it locked in the industry's current structure by preventing the innovations that public policy is supposed to promote. Clearly, any attempt to break up Microsoft (an idea the government has lacked the temerity to propose) would cause far more harm than good. Look at what happened in the government's antitrust intervention with IBM. The main beneficiaries of the government's case were the many lawyers, economists, and other advisers who received handsome fees for their efforts. Interestingly, the rate of innovation at that time was dramatically slower than it is now.

A sad sidelight in the Microsoft case is the cooperation of its competitors, Netscape, Sun, and Oracle Corp., with the government. One might have expected these robust innovators to rise above the category of whiner corporations, as represented in the past by Chrysler Corp. (in its pursuit of a public bailout in 1979) and Archer Daniels Midland (in its persistent lobbying for subsidies to ethanol). But a market-oriented economist such as myself ought not expect or even desire corporations to ignore private profit to further the public interest. The real problem is that whining can sometimes be profitable, because the political process makes it so. The remedy requires a shift in public policies to provide less reward for whining.

The bottom line is that the best policy for the government in the computer industry is to stay out of it. Come to think of it, this is the best policy for the government at most times in most places.