

Reply To My Critics

Red Herring Magazine, July 1, 1997

My April article "The Case for Microsoft" generated 50 positive and 22 negative emails. Of the positive ones, 39 were written by probable fans of Ayn Rand, the novelist and philosopher who made a passionate moral case for economic freedom. They saw my article, correctly, as a defense not only of Bill Gates, but of all people who create wealth. The remaining 11, though not obviously Randian, generally agreed that the government should not use antitrust laws to punish successful competitors.

Among the negative letters were 13 that attacked my character and my intellect. Some of these could be classified as hate mail. For example, one reader compared Mr. Gates to Adolf Hitler, then followed this bit of moderation by telling me I deserved "any kind of email abuse" that could be thrown at me. A more common charge was that I must be on the take from Microsoft.

However, the rest of the critical letters, and even some of the invective ones, contained thoughtful comments. It is these comments that I wish to respond to.

Wide margin, close shave

By far the most common criticism of Microsoft was that it uses its dominance of the market for operating systems to sell applications software. I agree. But I don't agree that this is bad.

Firms that have market power often sell, at a low price, the product that gives them that power. They then collect on the value that consumers place on the product by charging high prices for goods that are used with it. Safety razors, for example, often sell at a low price; the big profits are made on the blades. Economists have shown that this pricing scheme is often a good way for a company to collect more of the value of its innovation. The razor company, for instance, can collect more money from people who shave frequently.

Microsoft is pricing its operating system and applications software in the same way. By charging a low price for the operating system and high prices for

applications, Microsoft can collect more from the high-value users of many different applications while not pricing out those who require just one or two. This by no means implies that Microsoft is "extending its market power" from operating systems to applications software. Rather, Microsoft is simply using high prices on applications software to collect more of the value created by its operating system.

One reader argued that moving Microsoft engineers from its platforms division to its applications division gave the applications division inside information, and therefore an advantage over independent firms that produce only applications software. This hardly distinguishes Microsoft from thousands of other companies. A company would be run very badly--and consumers would be badly served--if employees in one division with information that could improve another division's product were prohibited from passing it on.

Another critic argued that because Microsoft dominated operating systems through superior marketing, most PC users were not able to enjoy a windowed environment until ten years after Macintosh users. I would never deny that Mr. Gates is a marketer par excellence or that some Microsoft software is inferior to less successful products from other companies. But because of Mr. Gates's marketing, computers have become more widely used than they might otherwise have been.

Father Bill

In response to my statement that, judged by deeds, not motives, Mr. Gates has done orders of magnitude more good than Mother Teresa, even the nonabusive people who disagreed didn't understand my point. Here it is. Mother Teresa redirects existing wealth from donors to poor, often sick people. Grant that she has, at a generous estimate, directly improved the lives of 10,000 people a year. Mr. Gates produces wealth. He probably has kept a larger fraction of this wealth than other innovators, but it is still a fraction. Assume, conservatively, that by creating an OS standard for developers and hardware manufacturers, he hastened the PC revolution by just one year. That's one year earlier that paraplegics, of whom there are tens of thousands, had access to powerful tools that made their jobs and their lives easier. That's one year sooner that computers reduced the costs of crop monitoring, clothes production, and financial services.

True, many of these benefits have gone to people in developed countries, virtually all of whom are wealthier than the destitute people Mother Teresa cares for. But the computer revolution has also brought down production costs for goods bought in poor countries, especially those sold by producers in rich countries. The computer revolution will hasten a cure for various diseases, which will lighten the task for the Mother Teresas of the world. By hastening the computer revolution, Mr. Gates has created benefits for hundreds of millions of people, and probably for billions.