The computer industry is an astonishing success story and by all accounts Microsoft stands at the center of the industry's remarkable development.

But government lawyers envision even more beautiful castles in the air. They recently announced their proposed "remedy" in the Microsoft antitrust case. To solve the "problems" caused by Microsoft behavior, the government wants to split Microsoft into an operating-systems company, which would own Windows, and an applications company, which would own Office.

What would this plan mean for consumers? Higher prices, less innovation and less convenient software. Consider the issue in light of some simple economics.

Good software like Office and Windows is extremely costly to develop. By design, the government's plan encourages the re-creation of what Microsoft has already created. If the plan achieves this goal, it will require hundreds of millions, perhaps billions, in extra software development costs. It will also divert entrepreneurial energy to the replication of existing products rather than the development of new and better ones.

The proposed breakup would also drive up the price of Windows. At roughly $60 a copy to computer makers, Windows is remarkably cheap, especially given the government's claim that Microsoft is a monopolist. One key reason is that each new copy of Windows means greater demand for other Microsoft products, particularly Office.

The situation is similar to a company that offers inexpensive shavers, because each new shaver means more razor-blade sales. Obviously, a stand-alone shaver company would not price low in order to sell another company's blades. For the same reason, a Windows-only company will not price low to sell someone else's applications software.

The government insists that a breakup will counteract this pressure for higher prices by fostering more competition for Windows and Office. How?

Suppose a company wanted to compete with Windows in the operating systems market. It might design a product similar to Windows, but it could anticipate a fierce contest for customers against a tough competitor with a proven track record. Low prices and low profits would be its likely fate. On the other hand, a competitor could design a somewhat different operating system that appeals to consumers less enamored of Windows. These consumers are easier to attract, while maintaining a profitable price. But Windows users will face higher prices because, as volume shrinks, higher prices become more attractive to the seller of Windows.
If a successful challenger to Windows does emerge, the two rival operating systems may evolve in incompatible directions, further damaging consumers. Software programs on one operating system might not work with the other. PC users would face enormous inconvenience and, in some cases, the cost of learning two operating systems. Evidence for this outcome is close at hand. The Unix operating system, which many experts consider technically superior to Windows, has long been hampered by a multiplicity of imperfectly compatible varieties.

In this way, the government's so-called remedies undercut one of the main engines of commercial success in the computer industry: greater ease of use.

Most PC users want seamless integration of different software features. For example, consumers insist that word processing programs work with spreadsheets and presentation software. Consumers now expect easy navigation on the Web. This demand drove the development of Microsoft Internet Explorer software and its integration into Windows. The conduct remedies would hamper efforts by the Microsoft successors to integrate new features into operating systems.

The government's proposals reflect the odd logic behind its antitrust allegations. One of the main charges is that Microsoft gave away Internet Explorer for free. Worse yet, it paid other firms to promote Explorer as Microsoft sought to overcome Netscape's early dominance in the browser market. But this aggressive strategy compelled Netscape to lower the price and improve the quality of its product. So even consumers who stayed with Netscape benefited from Microsoft strategy.

Lower prices and better products—that's what happened for consumers in the browser wars. But government lawyers see only predatory, anti-competitive behavior, with Microsoft as the villain. And they don't believe their proposed breakup would lead to any of the harmful effects on consumers. They're too busy building castles in the air.

[Illustration]
GRAPHIC; Caption: GRAPHIC: Illustration by Roman Genn.