

Interoperability and Market Foreclosure in the European Microsoft Case

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Abstract

In this paper we discuss some of the most important economic issues raised in European Commission vs. Microsoft (2004) concerning the market for work group servers. In our view, the most important economic issues relate to (a) foreclosure incentives and (b) innovation effects of the proposed remedy. We discuss the economic basis for the Commission's claims that Microsoft had incentives to exclude rivals in the work group server market through degrading the interoperability of their server operating systems with Windows. We also examine the impact of compulsory disclosure of information on interoperability and argue that the effects on innovation are not unambiguously negative as Microsoft claim. We conclude with some general implications of the case for anti-trust enforcement in high innovation sectors.