Writing assignment #2

Do Monopolies Rule the Internet? A big firm is not a bad firm if it earned its way to the top. Wall Street Journal (Online). New York, N. Y Nov 29, 2010.

Abstract (Summary)

The debate over possible government breakups of Internet companies began with a recently published book that also chronicles how monopolies in the information industry are almost always caused by government meddling.

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Full Text

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This will surprise consumers overwhelmed by choice on the Internet, but theres a growing claim that " monopolies"--dominant firms such as Google and Facebook--rule the Web. But as close students of economic history know, the greater threat to freedom on the Web would be for the government to decide which companies are good and which need to be broken up or punished.

The debate over possible government breakups of Internet companies began with a recently published book that also chronicles how monopolies in the information industry are almost always caused by government meddling.

The book is " The Master Switch" by Tim Wu, a Columbia law professor who coined the term " network neutrality."

Setting aside for a moment Mr. Wus call for more aggressive regulation of the Web, he is right that over the past century what he calls " information empires" have hijacked what start out as open systems, almost always with government regulation at fault. " Every few decades," Mr. Wu writes, " a new communications technology appears, bright with promise and possibility." There is innovation but also chaos, as new business models disrupt old ones. The result often is that " the markets invisible hand waves in some great mogul" who promises a more orderly structure for the industry. " Usually enlisting the federal government, this kind of mogul is special for he defines a new type of industry, integrated and centralized." Consider these examples:

Telephone. In 1913, the American Telephone & Telegraph Co. asked the federal government to regulate it, in the hopes of creating a monopoly on long-distance service that would let it over time crush local independent providers. With the slogan of " One system, one policy, universal service," AT&T got government-set rates that ensured it strong rates of return for decades while limiting competitors. As Mr. Wu says, " Imagine Microsoft in the 1990s asking the states and the Clinton Justice Department to determine the price of installing Windows or Google today requesting federal guidelines for its search engine." AT&T wasnt broken up until 1984.

Radio. In the 1920s, radio was an open medium of unrestricted, competitive communications. Church groups, universities and hobbyists launched radio stations catering to hundreds of different communities of interest. But by the late 1920s, the Federal Radio Commission--later renamed the Federal Communications Commission--decided that large networks such as NBC provided better service, at one point issuing an order calling for 164 small stations to be abolished. In the 1940s, AM radio stations got the FCC to limit frequencies for upstart FM stations, suppressing competition until the 1980s.

Television. David Sarnoff, the founder of radio powerhouse RCA, lobbied the FCC beginning in the 1920s to restrict television licenses. The FCC limited each community to two, creating a duopoly for NBC and CBS. In the 1960s, the FCC barred cable television from the largest 100 U. S. cities, a policy that was reversed during the Nixon administration.

Mr. Wu ran into a firestorm when, in a Wall Street Journal article earlier this month, he proposed aggressive regulation against what he called Internet monopolists, citing Facebook, Google and Apple among the culprits. These may be the current most successful companies, but that doesnt make them monopolists. Facebook has social-media competitors, Google was dismissed for daring to compete in search with companies such as AltaVista, and Apple even has competitors for the iPad tablet. Facebook this month launched an email service that could challenge Googles Gmail.

Mr. Wu didnt say what consumer harm these companies cause. " What Tim Wu is really doing is propagating the simplistic old saw that Big Is Bad," George Mason researcher Adam Thierer wrote on the Tech Liberation Front blog, accusing Mr. Wu of redefining monopolist " such that it now means any combination of big firms he personally doesnt approve of in markets that he has defined far too narrowly." Mr. Wu responded on the Tech Liberation blog that he thinks there can be " rules against the worst forms of abuse without a creeping regulation that turns into capture."

This is hope over experience, as Mr. Wus own historical review makes clear. The Internet was built by what Internet pioneer Vinton Cerf calls " permissionless innovation," without the licenses or heavy regulation that stifled innovation in earlier eras from phones to television. Mr. Wu writes, " Coming of age concurrently with an ideological backlash against centralized planning and authority, the Internet became a creature of its times."

So long as government keeps out the way, the Internet can stay free.

Credit: By L. Gordon Crovitz

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This news article discusses the aspect s of monopolies created in the internet. Web typhoons such as Google and Facebook have dominated the market share, and have allowed marketers to advertise on their website. It's not subjective, rather objective as it does report facts but also gives a little flashback to the history of monopolies. The issue is when does the FCC interfere to break up monopolies? In addition, how do certain companies get away with little or no regulation? All the companies mentioned in this article still exist today and seem to be highly popular amongst customers. The author is highly credible as he is one of the established writers of the Wall Street Journal, and has clearly some expertise in this subject matter.

In this particular issue, elasticity plays a critical role as an innovation of a new technology often disrupts the old one. This example could be perfectly illustrated when as AT&T, the phone company lobbied to have a set-rate for decades in order to yield revenue. If a mogul like Google insisted on a federal guide line for its search engine, it would cause chaos amongst internet surfers. Telephones are now being replaced by cell phones, and slowly internet has become a gigantic leader of all electronic mediums. Clearly the market for old-fashioned radios and telephone has gone down, while the demand for the internet services and accessories such as air cards has also increased. These shifts are clear due to technological advancements, and the convenience that some modern technology offers compared to old devices. The demand curve for social networking along with phone devices such as IPhones have also increased. A company such as Apple will also experience some marginal revenue as the demand for data coverage in handheld devices such as tablets, phones, and notebooks have drastically increased. Hence, Apple will focus heavily in research and design to create products that are compatible with data plan services available. Google, on the other hand will not only innovate phones, but continue its quest to create software and programs that synchronize hardware and software. Undoubtedly, Google will experience some marginal cost, but it will overall improve the net sales of the company as more users will use its interface.

MLA

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