PHOENIX CENTER OFFERS ECONOMIC FRAMEWORK FOR REPURPOSING THE C-BAND

Principal-Agent Theory Suggests a Private Rather than a Public Sale is Most Efficient

WASHINGTON, D.C. – Satisfying the rapid demand growth for additional commercial spectrum presents challenges the Federal Communications Commission. While the Commission has conducted numerous spectrum auctions in recent years, it lacks a ready source for the much-needed spectrum in the low- and mid-bands. By far, the largest, most promising source of mid-band spectrum suitable for repurposing to mobile wireless use is the C-Band, a 500 MHz swath of mid-band spectrum (3.7-4.2 GHz band) presently allocated for the provision of satellite communications. Satellite service providers, operating through the C-Band Alliance (“CBA”) consortium, have indicated that a large portion of this band could be quickly repurposed through a private sale. As is common, the plan faces some resistance, with much of the opposition preferring a public auction rather than a private sale.

In a new analysis released today entitled Innovation In Spectrum Repurposing: The C-Band As A Principal-Agent Problem, the Phoenix Center’s economic staff evaluate the competing methods for repurposing the band by appealing to principal-agent theory where the government is the principal and the consortium of satellite incumbents is the agent. Their analysis demonstrates the following:

First, given the private information available to the satellite industry, it makes sense for the government to allow the consortium to serve as an agent in conducting the sale, thereby ensuring the rapid and efficacious repurposing of the band.

Second, compensation to the agent for its private information is efficient and not “unjust enrichment.”

Third, considering the possibility that the principal may demand compensation from the agent, any such compensation (i.e., a regulatory payment) should take the form of a fixed payment rather than a share of auction proceeds.

Fourth, while a public auction may be used to increase the government’s proceeds from repurposing the band, such enrichment is more than matched by a reduction in total economic welfare.

“Just as spectrum auctions were an important innovation in U.S. spectrum policy, conducting auctions or other similar transactions through private agents may be a sensible next step in the
efficient allocation and assignment of spectrum rights,“ said study co-author and Phoenix Center Chief Economist Dr. George S. Ford.

A full copy of PHOENIX CENTER POLICY BULLETIN NO. 47, Innovation In Spectrum Repurposing: The C-Band As A Principal-Agent Problem, may be downloaded free from the Phoenix Center’s web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB47Final.pdf.

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