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Press Release

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EVIDENCE FROM NEW STUDY COUNTERS CLAIM THAT BIDDER EXCLUSION RULES WILL INCREASE SPECTRUM AUCTION REVENUES

Large Firm Participation Does Not Scare Off Smaller Bidders And Accounts For Bulk Of Total Auction Proceeds

WASHINGTON, D.C. – As the Federal Communications Commission begins to formalize rules for the upcoming voluntary incentive auctions for broadcast spectrum, questions regarding participation limits on the largest domestic wireless carriers remain open. Proponents of bidder restrictions on AT&T and Verizon claim that bidding by the more successful carriers will discourage auction participation by smaller firms and thus reduce total auction revenues. So, in turn, the argument is that by excluding or heavily restricting the participation of the largest firms in the auction, more entities will participate in the auction, thus raising overall auction revenues. In a new study released today entitled *Will Bidder Exclusion Rules Lead to Higher Auction Revenue? A Review of the Evidence,* Phoenix Center scholars analyze data from the 2006 AWS-1 spectrum auction to shed light on the validity of this claim, and their findings are significant.

Among other things, the Phoenix Center finds that AT&T alone accounted for nearly half of all auction proceeds, even though its winning bids were only about 10% of the total. AT&T's efforts (win or not) added a 21% premium to final auction prices above and beyond the revenue effects of the typical bidder. Verizon's impact was consistent with that of the average bidder. AT&T and Verizon, directly and indirectly, were responsible for about 70% of total auction revenues, though Verizon had a relatively small indirect effect. Also, the Phoenix Center finds no evidence that AT&T and Verizon reduced the number of bidders for licenses and no evidence to support the claim that lower revenues resulted from these two firms participating in the auction. As participants, the two increased overall auction revenues, both by winning licenses and by helping to reveal the valuations of other bidders.

Given these results, the Phoenix Center's study contradicts almost every key aspect of the arguments for restricting the participation of large carriers from the upcoming voluntary incentive auction—not only did AT&T's and Verizon's participation not deter smaller firms from entering the auction, but AT&T's participation substantially raised total auction proceeds above and beyond the effect of a typical bidder. Empirical evidence supporting bidder exclusions or restrictions in the forthcoming voluntary incentive spectrum auctions therefore remains weak.

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"In order for the voluntary incentive auction to be a success, the FCC must structure its rules to maximize revenue in order to incent broadcasters to participate, pay for FirstNet, and to provide significant funds to help pay off our national debt," said study co-author Phoenix Center President Lawrence J. Spiwak. "Restricting the participation of bidders who provided the lion's share of total auction proceeds in the AWS-1 auction would appear to be counterproductive towards achieving these goals."

"The influence of a bidder in an auction is more than what it buys, because a losing bid forces other bidders to reveal their true valuations," said study co-author Phoenix Center Chief Economist Dr. George S. Ford. "For example, AT&T had a very large indirect effect on auction outcomes. While its winning bids were only about 10% of the total proceeds, the company accounted for nearly half of the AWS-1 auction's revenues."

A full copy of the paper, PHOENIX CENTER POLICY BULLETIN NO. 34: *Will Bidder Exclusion Rules Lead to Higher Auction Revenue? A Review of the Evidence,* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB34Final.pdf.

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