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Press Release

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New Phoenix Center Study Demonstrates that When Spectrum Exhaust is Factored into Standard Competition Analysis, Consumers May be Better Off with Fewer Firms

Paper Shows that Congress is Correct to Prohibit FCC from Excluding Bidders in any Voluntary Incentive Auction for Broadcast Spectrum

WASHINGTON, D.C. — In a new study released today entitled: *Wireless Competition Under Spectrum Exhaust,* the Phoenix Center demonstrates that in the face of spectrum exhaust for commercial mobile services, policies which impede incumbent carriers from acquiring more spectrum—via either auction or acquisition—may do harm rather than good.

In most policy debates, it is generally presumed that there is a direct relationship between the number of firms and market performance—i.e., prices fall as the number of firms increase and, conversely, that prices rise as markets become more concentrated. However, the Phoenix Center's new study finds that the addition of a spectrum constraint to the traditional economic model of competition turns the conventional view of wireless competition on its head. Even using the standard economic model of competition that is otherwise consistent with the traditional view that high industry concentration is a bellwether of poor economic performance, the Center shows that under a binding spectrum constraint, a reduction in the number of firms will produce lower prices and possibly increase sector investment and employment. This seemingly "contrarian" effect arises from the simple fact that prices will likely fall as scarce spectrum resources are employed more efficiently, permitting firms to increase output in response to rising demand for bandwidth. With more firms, total industry capacity is lower, so that rising demand must be rationed with higher prices. As a result, the Phoenix Center's economic analysis shows that the market participation restrictions championed by FCC Chairman Julius Genachowski (and others) are unlikely to be welfare enhancing.

"No one has formally studied how spectrum shortages affect competition in wireless communications. Our study is the first, and its findings are significant," said study co-author and Phoenix Center President Lawrence J. Spiwak. "If mobile carriers have too little spectrum, then the standard view that more competitors leads to lower prices is precisely backwards. Clearly, policymakers need to re-orientate their thinking about competition in the wireless industry."

"The economics of the wireless industry are highly complex, and understanding how key industry trends affect market outcomes is essential to good policymaking," said Dr. George S.

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Ford, Chief Economist of the Phoenix Center and co-author of the paper. "We hope this study leads policymakers, and those that seek to influence them, to strongly question the boilerplate economic analysis that too often leads to poor policy prescriptions in communications markets."

In addition to Mr. Spiwak and Dr. Ford, Phoenix Center Senior Fellows and Auburn University Professors of Economics Dr. T. Randolph Beard and Dr. Michael Stern also co-authored the paper.

The complete copy of the study, PHOENIX CENTER POLICY PAPER NO. 43: *Wireless Competition Under Spectrum Exhaust,* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/pcpp/PCPP43Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.