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Press Release

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PHOENIX CENTER FINDS THAT EXCLUDING BIDDERS WILL REDUCE REVENUES FROM UPCOMING FCC VOLUNTARY INCENTIVE SPECTRUM AUCTIONS

Proponents of Bidder Exclusion Rules are "Playing Fast and Loose with Economic Theory"

WASHINGTON, D.C. – In a new study released today entitled *Will Bidder Exclusions Increase Auction Revenue? A Review of the Arguments*, Phoenix Center Chief Economist Dr. George Ford scrutinizes the claim that excluding AT&T and Verizon from the Federal Communication Commission's upcoming voluntary incentive auction for broadcast spectrum will increase auction revenues. After review of the theory used to support this "revenue enhancement by exclusion" claim, Dr. Ford finds that this assertion is not supported by the economic literature.

Dr. Ford explains that the economic research relied upon by proponents of bidder exclusion rules clearly shows that excluding the two larger carriers will, in fact, *reduce* auction revenues. As discussed in the study, the "revenue enhancement by exclusion" hypothesis relies on a scenario where a monopoly incumbent is challenged by entry, but these entrants are scared off by the incumbent's presence. While the theory lacks empirical support from U.S. spectrum auctions, it also fails theoretically in the presence of multiple incumbents. In fact, if the argument to exclude AT&T and Verizon is taken to its logical conclusion, then T-Mobile and Sprint must also be excluded from the upcoming auction. As such, Dr. Ford finds that proponents of bidder exclusion rules are simply "playing fast-and-loose with economic theory." Additionally, Dr. Ford observes that the economics literature on auctions consistently and fervently warns about the dangers of lost efficiencies from the use of bidder exclusions and other forms of favoritism in auctions, but proponents of bidder exclusion rules never discuss such hazards in their advocacy. On efficiency and revenue grounds, there are strong arguments for an auction including *all* carriers.

"The Congressional Budget Office has scored the upcoming auction to produce around \$24.5 billion, and these expected revenues from the incentive auction have already been allocated to specific (and very expensive) purposes," said Phoenix Center President Lawrence J. Spiwak. "Given such high expectations, proposals that could weaken potential auction revenue should be heavily scrutinized."

"Removing successful and spectrum-hungry providers of mobile wireless service from the auction will almost certainly reduce auction revenues," says study author Phoenix Center Chief Economist Dr. George S. Ford. "These lost auction revenues and the reduction in the efficiency

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with which spectrum is used are the heavy costs of catering to bureaucratic preferences for winners and losers.”

PHOENIX CENTER POLICY PERSPECTIVE NO. 13-03: *Will Bidder Exclusions Increase Auction Revenue? A Review of the Arguments*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective13-03Final.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.

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