



Gregory L. Rosston  
Deputy Director

April 6, 2011

President Barack Obama  
The White House  
1600 Pennsylvania Avenue  
Washington, DC 20500

Dear President Obama,

We are 112 economists who specialize in telecommunications, auction theory and design, and/or competition policy. We understand that Congress is considering legislation that would give the FCC explicit authority to run “incentive auctions” in which it would have the ability to distribute some portion of the auction proceeds to licensees who voluntarily give up their license rights. We support such an effort and think it would increase spectrum efficiency in the United States.

Spectrum policy is very important for the United States economy. In 1993, Congress took the important, but politically controversial step of authorizing spectrum auctions. The decision led to substantial benefits including more efficient spectrum allocation and substantial revenues for the U.S. Treasury. The Federal Communications Commission (“FCC”) worked with auction experts to develop the simultaneous multiple-round auction that worked in the United States and has been replicated around the world.

Congress has another chance to give the FCC a valuable tool to increase the efficiency of spectrum use in the United States by granting the FCC the authority to auction spectrum it controls at the same time as it auctions spectrum licenses held by commercial entities. Auction design and practice is sufficiently advanced that the FCC can successfully implement this type of auction. Incentive auctions can facilitate the repurposing of spectrum from inefficient uses to more valuable uses while minimizing the transaction costs incurred. Giving the FCC the authority to implement incentive auctions with flexibility to design appropriate rules would increase social welfare.

Historically, the FCC allocated spectrum for specific uses such as television, radio, or satellite services. Spectrum rules are meant to resolve conflicting uses, much as a city might engage in zoning to protect homeowners from noisy or dirty industrial developments. Because of changing technologies, demand, and relative costs, old spectrum allocations based on out-of-date assumptions have become inefficient, wasting valuable spectrum resources. Existing laws do not give the FCC the tools it needs to allow spectrum to be reallocated efficiently and quickly from

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old uses to newer, currently more valuable uses.

The United States has a long tradition of relying on private market transactions to guide resources to their highest value uses. Voluntary transactions in free markets ensure that trades happen only when the buyer and seller both benefit. Just as for most assets, when radio spectrum is used inefficiently and appropriate property rights are in place, the potential buyers and sellers will be encouraged to find terms that capture and share the benefits of transitioning spectrum to higher valued uses.

Transitioning spectrum to more valuable uses is relatively easy and almost spontaneous when simple, single transactions can provide most of the joint benefits. But repurposing radio spectrum can entail complex transactions involving several parties. For example, a buyer may be reluctant to acquire licenses piecemeal because of the risk that it might fail to aggregate a sufficient quantity of appropriate licenses. However, a centralized auction that incorporates package bidding helps assure the buyer that it would not be saddled with an inefficiently small aggregation of licenses, and also allows a buyer to compare alternative acquisition strategies more systematically. A centralized marketplace can also reduce the transaction costs and hold out problems that sometimes arise when the ability to set up a service requires negotiating rights from many different parties (sometimes referred to as a “thicket of rights” or “anticommons” problem). For example, current broadcast licenses have many overlapping geographic areas; it might be difficult to come to satisfactory agreements in a timely manner with a sufficient number of incumbent licensees in any particular geographic area, or enough geographic areas across the country, to establish a viable wireless service.

Implementing an efficient “incentive auction” will require substantial thought and care – we look forward to working with the FCC to develop an efficient auction system and to address potential concerns about the auction and how it will work. The original simultaneous multiple-round auction system implemented in 1994 was novel, but the FCC was able to implement the path-breaking auctions that were the basis for successful auctions around the world. We expect that the same will be true of incentive auctions.

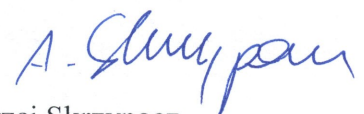
Sincerely,



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Cc: Austan Goolsbee, Chairman, President’s Council of Economic Advisors  
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