

Verizon is Right: Delay Auction No. 31

Comment on DA 01-143,
“COMMENT SOUGHT ON VERIZON WIRELESS REQUEST
FOR POSTPONEMENT OF AUCTION NO. 31”

by

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We support the request by Verizon Wireless that the FCC postpone Auction 31. This postponement is in the public interest for three reasons.

First, as Verizon Wireless emphasizes in their letter, the FCC needs to decide upon an overall strategy for 3G wireless before selling off any part of the spectrum needed for use in 3G wireless. Selling spectrum in the face of unnecessary uncertainties risks, contrary to the requirements of Section 309(j), an inefficient allocation of the spectrum and an unfairly low recovery for the Federal Government of a share of the value of the spectrum. There are always uncertainties, but the FCC’s strategy is under its control; it is not an external, uncontrollable uncertainty. Therefore, to accomplish its legislatively assigned task, the FCC must make its 3G regulation and sale strategy clear first.

Second, the FCC ought not to auction spectrum with other incumbent uses until it either clears the spectrum or rules that the current incumbents must move in return for compensation based upon the encumbered spectrum's value in the use currently authorized for incumbents. Aside from such just compensation, the current incumbents should not be permitted to obtain any of the increase in value of the spectrum they currently use when it becomes allocated for more valuable uses. In particular, it is unconscionable to give the owners of UHF stations the value of the spectrum for 3G wireless use by allowing them to delay band clearing when all that the FCC had originally given them was the right to UHF broadcasting. The inaction to date on appropriately limiting broadcasters' rights to delay or interfere with band clearing transparently serves to reward incumbent broadcasters for the 3G wireless value of the spectrum they currently occupy, and to reduce revenue in the 700 MHz auction by even more than the unjustified windfall that inaction on band clearing rewards to incumbent broadcasters. This is economically inefficient since the revenue the FCC fails to collect will have to come from income taxes (increases or foregone cuts), and it

is well documented that there is a substantial economic inefficiency at the margin in raising money from income taxes.¹

Third, we have previously lamented that the FCC has not adequately studied its design for this, its first combinatorial auction.² In brief, after an extensive discussion of an alternative design approach, the current design was based upon a comment made on the last day for reply comments. The additional comments the FCC sought last November were tightly restricted to minor details of that design. The comment filed by Professor Charles R. Plott³ made it clear that the support by academic economists for the advantages of package bidding most definitely does not extend to support for the unstudied design of package bidding rules as currently specified by the FCC for the 700 MHz auction. The postponement Verizon seeks would provide another opportunity for considering some of the more fundamental aspects of the FCC's current design. The FCC should take advantage of this opportunity.

*Durham, NC and Piscataway, NJ
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¹ See Charles L. Ballard, John D. Shoven and John Whalley, "General Equilibrium Computations of the Marginal Welfare Cost of Taxes in The United States," *American Economic Review* **75**, pp. 128-138, 1985, Martin Feldstein, "Tax Avoidance and the Deadweight Loss of the Income Tax," NBER Working Paper No. W5055, March 1995, National Bureau of Economic Research, Cambridge, Ma., Martin Feldstein, "Debt and Taxes in the Theory of Public Finance," *Journal of Public Economics* **28**, pp. 233-245, 1985, and Michael H. Rothkopf and Ronald M. Harstad, "Reconciling Efficiency Arguments in Taxation and Public Sector Resource Leasing," RUTCOR Research Report #66-90, Rutgers University, New Brunswick, N.J., 1990.

² Aleksandar Pekec and Michael H. Rothkopf, "Ex Parte Comments on Auction No. 31: Now There is Time for Serious Consideration of the Novel Auction Rules," <http://www.fcc.gov/wtb/auctions/combin/nowtime.pdf>, August 1, 2000 and Aleksandar Pekec and Michael H. Rothkopf, "Discussion of the Novel Auction Rules Should Not be Limited to a Few Details: Comment on DA 00-2404, 'Comment Sought on Modifying the Calculation for Determining Minimum Accepted Bids and Changing the Provisions Concerning Last and Best Bids,'" <http://www.fcc.gov/wtb/auctions/700/discussion.pdf>, November 15, 2000.

³ Charles R. Plott, "The FCC Rules For the 700MHz Auction: a Potential Disaster," <http://www.fcc.gov/wtb/auctions/700/rules6.pdf>, November 15, 2000.