

Wireless Spectrum Auctions: What If ...



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The Bush Administration, eager to create new jobs, is overlooking a major generator of economic growth and employment right at its fingertips: unused wireless spectrum.

Anywhere from half to three-fourths of available spectrum goes unexploited each week, and over 99.99 percent is underutilized. Yet by rigidly proscribing both spectrum ownership and spectrum applications, government policy stifles innovation and cuts off a substantial, recurring source of revenue and productivity.

Just look to the Internet to recall how unlocking a closed, top-down communications system to bottom-up entrepreneurship can open up massive economic activity. This is no facile comparison. Indeed, it's easy to forget just how many in the telecom industry derided the Internet and its potential as recently as a decade ago.

But today, you need big-time lobbyists and billions of dollars to purchase a slice of spectrum. This quashes any chance of experimentation, locks out the small entrepreneur, and forces innovation to occur in tiny, over-crowded and over-regulated unlicensed bands.

Everyone recognizes how television and cellular telephony changed the economic and cultural communication landscape. But these two applications were delayed by decades of study and are constrained by monopoly ownership and outdated standards. Imagine a world filled with 10 times as many markets as large as TV and telephony.

The combination of unused spectrum and current technological capabilities offer a rare opportunity for dynamic growth.

We need to recognize that the arguments for tightly regulating spectrum have become obsolete. Technological advances, such as thousands of inexpensive transmitters replacing a few broadcast antennas and the ability to split signal spectrum

and allocate slices on demand, were undreamed of when the government began parceling out spectrum in the 1930s. Incumbent spectrum applications have become less valuable since cable replaced broadcast as the prime vehicle for television transmission and MP3 players and Internet audio diminished the value of traditional radio.

In short: The argument for regulating spectrum as a public good has evaporated.

To be sure, the FCC has recently shown a modest inclination to free up spectrum and is now soliciting comments on proposals that would do just that. But these proposals — including transactions such as one-to-one spectrum swaps between cellular

companies — still bear all the marks of the FCC's traditional command-and-control mentality. A level playing field is the only proven way to innovate and create value. The FCC process is too slow, too little and too late. We need a spectrum-usage revolution today.

But where to begin?

Many, including myself, believe auctions are the best way to free spectrum from a regulatory deep-freeze. We should treat spectrum as the perishable commodity it really is.

The government could authorize a private NASDAQ-like spectrum exchange to trade spectrum on a second-by-second basis. Or it could permit current spectrum owners to auction it off to whomever the owner chooses, for whatever use they choose. The auctioning of other public goods such as air rights and pollution credits have demonstrated effective new ways to harness market forces for increased efficiency. The important thing is to remove virtually all our current restrictive regulations on spectrum use and give entrepreneurs the opportunity to experiment.

Many will object. One counter-argument is "fairness." Purchasers who spent billions of dollars on spectrum for 3G will want their money back. Fine. Indeed, both purchasers and the government would benefit if license holders were able to recover their lump-sum investments and offer the government, instead, an indefinite 5 percent fee on all spectrum sales. Both sides would profit enormously, and the market would continuously adjust the value of the wireless asset to match its true, underlying value.

Others will worry about the possibility of bedlam when thousands of highly varied organizations compete in the same space. "Central control is essential," so the arguments will run, "capacity will never grow," or "quality will be poor." If these arguments sound familiar, it's because they were once made about the Internet — and with equal validity.

The most powerful objections, however, will be made quietly behind the scenes, as current spectrum owners seek to maintain their position in what has always been a highly political process.

Perhaps our best shot at influencing the current administration to free up spectrum will arise with the confluence of free-market ideology and the interests of large corporations. If just one corporate Bush supporter sees the potential for faster growth and better returns by replacing its current business model with the spectrum auction model, the floodgates could open. Sometimes self-interest is the public interest in disguise.

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