NEW PHOENIX CENTER STUDY SUPPORTS THE FEDERAL COMMUNICATIONS COMMISSION’S SOLUTION TO HOLDOUTS IN 900 MHZ BAND

Commission's Proposed Transaction Threshold Is Supported By Economic Theory And Thus Would Permit The Socially-Valuable Repurposing Of Spectrum To Occur

WASHINGTON, D.C. — When private parties attempt to accumulate spectrum via market transactions, they face the potential for strategic holdouts. Recently the Federal Communications Commission requested comment on a novel solution for the holdout problem: once market transactions have led to agreements with incumbents holding licenses for some large share of the required licenses (say, 80%) in the target band, the Commission would then require migration of the remaining licenses to new comparable spectrum, the costs of which are borne by the new broadband licensee.

In a new study released today entitled Addressing Spectrum Holdouts With A Transaction Threshold: A Theoretical Analysis, the Phoenix Center’s economic staff evaluates the suitability of the Commission’s proposal to address the holdout problem. To do so, they construct an economic model in which a license aggregator seeks to obtain licenses secretly for a socially-valuable repurposing, but the probability the innovator’s plan is revealed to incumbent licensees rises as more licenses are acquired, exacerbating the holdout problem. The Phoenix Center’s economists then consider whether a transaction threshold may effectively address the holdout problem by permitting, probabilistically at least, a positive return to the innovator. After review, the authors find that the Commission’s proposed transaction threshold is supported by economic theory and thus would permit the socially-valuable repurposing of spectrum to occur.

“Spectrum repurposings through market transactions face a holdout problem, where incumbent licensees demand a price so high that a socially-valuable repurposing of spectrum is blocked,” says study co-author and Phoenix Center Chief Economist Dr. George S. Ford. “The Commission’s proposal for a transaction threshold accompanied by an expiring transaction window may very well address the holdout problem in an effective manner.”

“Given the need for more spectrum, the holdout problem is best addressed with clear signals sent to incumbents early in the process so that innovators are not hesitant to pursue valuable spectrum repurposings,” says study co-author and Phoenix Center Senior Fellow Professor Michael Stern (Auburn University). “Nonetheless, our analysis shows that a late intervention by the Commission, under some conditions, may resolve the holdout problem.”

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 the digital age.