The (Not-so) Dismal Science and the Super Committee: The Spectrum Option

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Economics has earned the moniker “the dismal science” because of the penchant of economists to constantly remind society of the harsh tradeoffs that appear in economic life and decision making. Guns or butter. More taxes or fewer services. Education or Defense. Deficit reduction or job growth.

It is against this backdrop that the Joint Select Committee on Deficit Reduction (the Super Committee) has been charged with the task of trimming at least $1.5 trillion from the federal government’s deficit by 2021. Surely that task will involve many tradeoffs that will, indeed, be difficult, if not downright dismal, to make. But if the Super Committee is careful enough in its scrutiny, it will find opportunities to avoid the dismal nature of the tradeoffs to which economists constantly point. Opportunities for both fiscal responsibility and job growth emerge.

Among these opportunities, perhaps the most readily apparent involves the case of the nation’s treatment of radio spectrum. After decades of poor, inefficient allocations of spectrum by fiat or lotteries, the nation moved to a system of more economically efficient auctions for spectrum in the 1990s. Since that time, federally conducted auctions of spectrum have raised tens of billions of dollars for the federal treasury. In the last two auctions alone, the 2006 AWS-1 auction generated $13.7 billion for the Treasury, while the 2008 700 MHz auction netted $19 billion. Most important, these auctions have not come at the expense of reduced job growth, but rather have provided the critical input — the *sine qua non* — of the burgeoning wireless telephone and internet industry. In an economy that has labored mightily to move forward over the past few years, this transformation of telecommunications from “old-school” narrowband, wireline telephony to “information-age” broadband transmissions of voice, data and video has created a general purpose technology that not only stimulates the industry’s economic growth but is also serving to increasingly enhance productivity and economic growth across other sectors of the economy.

Today, the rapidly growing demand for spectrum is outstripping the available supply. The result has been calls by the Administration and the FCC for a short-term measure called incentive auctions of spectrum. Incentive auctions would facilitate the movement of underutilized and lower-valued spectrum held by television broadcasters to wireless telecommunications providers who stand ready to quickly put the spectrum to more highly-valued uses. This is surely a good starting point and has been endorsed by over 100 economists at a White House ceremony earlier this year. For the FCC to conduct such incentive auctions, however, requires Congressional authority — authorization that could be part of the recommendations of the Super Committee.

The Super Committee is, however, charged not only with addressing our nation’s shortest-run problems, but also with setting our nation on a longer-run path of fiscal responsibility.
Accordingly, the Super Committee has an opportunity to regularize the spectrum auction process and to add a predictable source of much-needed spectrum supply that will fuel economic growth. Doing so will both aid the nation as it seeks to reduce federal deficits and act to enable private sector job growth. While estimates vary, at least one published report (http://www.brattle.com/_documents/UploadLibrary/Upload964.pdf) has concluded that a series of spectrum auctions over the next 9 years (including auctions not only involving broadcast spectrum) can generate roughly $100 billion, and that after deducting all costs associated with clearing the spectrum and conducting the auctions would net over $60 billion for the Treasury. It also complements the desire for America to lead the world in spectrum-based innovations enabled by an adequate supply of spectrum.

In the course of its deliberations, the Super Committee will necessarily wrestle with the realities of economic tradeoffs in many arenas. When it comes to spectrum policy, however, the Super Committee can have one not-so-dismal moment by promoting and regularizing the auction process and more generally enabling policies that allow spectrum to move from lower valued to higher valued uses.