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On 4G, Russia Trails Trinidad and Tobago

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Modern economic science is technically complex. New theoretical results challenge common wisdom and produce hypotheses that can be verified by data. New empirical results demonstrate new technical tools for data analysis and verify the validity of theoretical models. With time, new theories gradually "mature": Most do not withstand the test of time and are discarded, while a few become the basis of practical policy.

Let's look at one of the findings of economic science that has been proved in practice and adopted around the world. The lesson is that the radio spectrum should be allocated through competitive auctions. Allocating frequencies by a decision of some committee (economists call it the "beauty contest" method of allocating scarce resources) — or worse yet, without any open procedure — is less efficient. Properly organized auctions will result in a market that provides consumers with a higher quality service at a lower cost and produces greater incomes for governments. This is a proven practice in all developed economies. Over the past 20 years, dozens of state auctions have been held worldwide, generating tens of billions of dollars for governments. Following the lead of New Zealand, countries such as the United States, Britain and even Trinidad and Tobago have come to believe this, allocating their radio

frequencies through auctions.

It seems, however, that in discussing how to allocate frequencies on its fourth-generation networks, Russia has not yet reached the same level of understanding held by Trinidad and Tobago. This comes despite the fact that a number of economists of Russian origin are prominent specialists on auctions, including Michael Ostrovsky of the Stanford Graduate School of Business, Michael Schwarz in the research department of Yahoo!, Ilya Segal at Stanford University and Sergei Izmalkov, who was a professor at MIT before coming to work at the New Economic School in Moscow. Yet in Russia, the debate that surfaced last week is between those who want to receive a license without any contest and those who want a contest. Which option is worse? They are both bad.

Of course, it is impossible to include several chapters from a microeconomic textbook in this column. But one thing that I want to say is that there is no basis for the frequently heard argument that higher prices for purchasing radio frequencies via auctions will lead to higher prices for consumers. That would only happen if a government reached an advance agreement with a regulated monopoly, but not in a market with multiple players. Most important, two things are required for a successful competitive auction. First, politicians must have sufficient willpower to resist the efforts of lobbyists, who will certainly try to limit competition by restricting entry to auctions. Second, the auction must be properly designed. Since market participants can collude to influence the results of the auction, at least two steps must be taken: The number of licenses up for sale should not coincide exactly with the number of major players in the market, and the auction should include a part in which participants submit their bids "secretly." If Russia wants to join the world's developed economies, frequencies for its 4G networks should be allocated through a truly competitive auction.

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