

# SPECTRUM MANAGEMENT: PROPERTY RIGHTS, MARKETS, AND THE COMMONS

Gerald R. Faulhaber and David Farber\*

## Introduction

Since 1927, the electromagnetic spectrum has been allocated to uses and users by the Federal government, covering broadcast radio, microwave communications systems, broadcast television, satellites, dispatch, police and national defense needs, among many others. Assignees receive a license to broadcast certain material (say, taxi dispatch) at a specified frequency and a specified power level (and perhaps direction). For many purposes, this license is time-limited, but with a presumption of renewal; in fact, radio licenses are almost always renewed. Licensees can only use the spectrum for the specified purpose and may not sell or lease it to others.

Economists since Ronald Coase (1959) have argued strongly and persuasively that allocating a scarce resource by administrative fiat makes little sense; establishing a market for spectrum, in which owners could buy, sell, subdivide and aggregate spectrum parcels would lead to a much more efficient allocation of this scarce resource. But only in the last ten years has the Federal Communications Commission (FCC) received authorization from Congress to conduct auctions for spectrum used in wireless (cellular) communications, but without the ability to resell to others. However, this experiment in bringing market forces to bear to allocate radio spectrum for wireless (only 180 Mhz) has not been extended to other parts of the spectrum, which continue to be allocated administratively. Economists continue to press for “marketizing” spectrum as the surest means to use this important national resource efficiently.

Meanwhile, substantial strides have been made in radio technology, including wideband radio (such as spread spectrum and ultra wideband (UWB)) and “agile” radio (one of several applications of software defined radio (SDR)). The developers of these technologies note that the products based on these technologies undermine the current system of administrative allocation of exclusive-use licenses, and call for an “open range,” or commons, approach to the spectrum that would do away with exclusive use. “Removing the fences,” in this view, will lead to more efficient use of the spectrum.

While both economists and radio engineers believe the present system of spectrum allocation is inefficient and wasteful, they appear to have diametrically opposed views of

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\* Professor of Business and Public Policy, Wharton School, University of Pennsylvania, and former Chief Economist of the Federal Communications Commission (2000-01); Alfred Fitler Moore Professor of Telecommunications Systems, University of Pennsylvania, and former Chief Technologist, Federal Communications Commission (2000-01). The authors are co-directors of the Penn Initiative for Markets, Technology and Policy at the University of Pennsylvania. The ideas expressed in this paper do not represent the Federal Communications Commission, the University of Pennsylvania, or any known institution other than the authors.

what should replace it. Economists seek to unleash the power of the market to achieve efficient outcomes; engineers seek to unleash the power of the commons to achieve efficient outcomes. Which is right?

We argue in this paper that this is a false dichotomy, based on a misunderstanding by economists of the new radio technologies and a misunderstanding by engineers of the flexibility of property rights and markets. We show that there are several property rights regimes that can simultaneously support both markets and the rapid diffusion of the new radio technologies, leading to a far more efficient allocation of this important national resource.

## **Early Radio History: From Innovation to Government Allocation<sup>1</sup>**

From its earliest inception, broadcast radio was seen as useful primarily for marine communications: ship-to-shore telephony. The failure to heed disaster calls from the Titanic in 1912 and the failure to fully realize the naval benefits of wireless in World War I created a public sentiment to improve the maritime uses of wireless, leading to the US Navy's efforts to cartelize the industry in 1919-1921.

Broadcast radio seems to have arisen spontaneously in 1921, when the first broadcast stations in New York and Pittsburgh went on the air, reaching thousands of hobbyists with crystal radios. The popularity of broadcast radio spread very quickly, and its commercial possibilities were realized early. However, the problem of interference became paramount in 1922-1925. If two (or more) broadcasters in the same city choose to transmit on the same (or very close) frequency, then each interfered with the other's signals and radio listeners were treated to cacophony. This was good for no one, and in the early years, a *de facto* property right standard of "priority in use" arose; quite simply, the first user "owned" the frequency, and subsequent users had to broadcast elsewhere. This property right was supported by the Department of Commerce and by 1926 was recognized by several courts.

In 1926, Herbert Hoover, Secretary of the Commerce Department, ordered that the Department stop supporting priority in use claims. The result was chaos; in major radio markets, interference became the norm as new firms attempted to poach on the frequencies of popular radio stations. In the resulting outcry, Congress passed the Radio Act of 1927, which established the Federal Radio Agency (FRA) with the responsibility of stewardship of the spectrum and the sole right to determine what various frequencies could be used for and who could use them. In the ensuing years, virtually every country in the world emulated the US by establishing a national agency solely in charge of allocating spectrum to uses and assigning it to users. All national agencies gather every three years at the World Radiocommunications Conference to discuss and resolve radio spectrum problems across administrative boundaries.

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<sup>1</sup> The historical material presented here is drawn from Hazlett (1998), to whom the authors are indebted for his work in spectrum economics spanning over a decade.

In the US, the Communications Act of 1934 created the Federal Communications Commission (FCC), vesting in it the FRA's spectrum allocation authority<sup>2</sup> (and abolishing the FRA). Since its inception, the FCC has interpreted its authority as the nation's spectrum manager rather broadly. In the 1960s, for example, it imposed an equal time rule on broadcast networks, by which if one candidate for office received air time then all candidates for that office must receive the same air time. Currently, the FCC also has the authority to review all corporate mergers and acquisitions that result in the transfer of radio licenses on rather general "public interest" grounds.

The standard procedure (until quite recently) was that an individual or firm wishing to obtain a new spectrum license for a particular frequency in a particular location applied to the FCC for that license. After public notice, anyone else could also apply for the same frequency and location; should there be more than one applicant, a comparative hearing was held to determine which applicant was "more suitable" to discharge the public interest obligations of license-holding. Numerous critics have charged that this process could be politically influenced; one of the more notorious cases is likely that of radio licenses obtained by Lyndon Johnson in the 1940s while he was a Congressman, which licenses became the foundation of his personal fortune (see Caro (1991)). Applicants were issued licenses for specified purposes; a license for taxi dispatch could not be used for ham radio, for example. Further, the license was limited to ten years, although issued with the presumption of renewal. Recently, renewal has become as easy as sending the FCC a postcard, but in the past license renewals could be and were challenged.

The award of the license did not grant the licensee any property rights in the spectrum beyond that of the license. The licensee could not sell or lease the license, nor use it for any purpose other than that specified in the license. If the licensee were purchased, or merged with another firm, the transfer of the license had to be approved by the FCC.

More recently, the FCC and Congress have been retreating from the comparative hearings model. After a brief foray into licensing analog cellular licenses by lottery, the FCC requested and received authority from Congress to conduct auctions for licenses to operate digital cellular telephone service in a band of 180 Mhz. A number of auctions have since been held, raising billions of dollars for the US Treasury. Again, the auction winners do not actually own the spectrum, but merely the license to operate for cellular services only. The FCC (nor NTIA) does not assert ownership of the spectrum, but does retain all rights to control it, including the issuance, conditioning and revocation of licenses; however, a recent ruling by a bankruptcy court in the NextWave case<sup>3</sup> ruled that a spectrum license is considered an asset of the firm and the FCC has no primacy over other creditors in reclaiming this particular asset. This would suggest that the FCC's residual control of all spectrum licenses is not absolute. Additionally, spectrum licenses granted to satellite systems have been explicitly excluded from the auction process<sup>4</sup>.

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<sup>2</sup> The Commerce Department retained control over all spectrum used by the Federal government. This authority is now vested in the National Telecommunications and Information Agency (NTIA) within Commerce.

<sup>3</sup> NextWave Personal Communications Inc. v. FCC, 254 F.3d 130 (D.C. Cir. 2001).

<sup>4</sup> ORBIT Act, Public Law 106-180, 114 Stat. 48 (2000).

The results of this process are not difficult to predict. Holders of spectrum are unwilling to give it up, even when they are unable to make use of it. For example, the FCC's experiment in the 1950s with UHF television assigned 330 Mhz of spectrum to this use.<sup>5</sup> The experiment was not successful, and this band is extremely underutilized. However, license holders are unable to use the spectrum for any other purpose (such as wireless telephony) and are unwilling to give it back. Thus, this prime spectrum lies fallow, while other uses (such as wireless telephony) claim to be in a "spectrum drought." The political nature of spectrum allocation is illustrated by Congress' direction to the FCC<sup>6</sup> to allocate spectrum to the broadcast industry for DTV (digital television), which has allocated channels 2-51 for this purpose.<sup>7</sup> The broadcast industry appears to be stoutly resisting the deployment of DTV and yet it is unwilling to give up the spectrum Congress gave it for this purpose. Again, valuable spectrum lies fallow while other uses are starved for spectrum.<sup>8</sup>

There are several efforts underway at the FCC to improve this highly inefficient use of the spectrum. "Flexible use" is a policy initiative in which spectrum license holders could be permitted to use their spectrum for products not specified in their original license. For example, if this were applied to the UHF channels, then UHF license holders could use their spectrum for wireless telephony (or any other use). One entrepreneur that has already taken full advantage of flexible use is Nextel, a firm offering cell phone service using spectrum from the taxi dispatch band. "Band managers" would permit the licensing of spectrum to firms who could then lease this spectrum to others on commercial terms. In addition, the FCC is engaged in band clearing, in which current license holders are offered spectrum in other bands to give up their current allocation that could be more constructively deployed in other uses. Currently, the UHF channels 52-69 are targeted for band clearing.

Despite the more recent moves toward more market-based spectrum allocation, the dominant mode of managing the spectrum is administrative fiat. Perhaps the closest analogy to the US's current approach is that of GOSPLAN, the central planning agency in the former Soviet Union. GOSPLAN drew up plans for every sector of the Soviet economy, determined how much of each scarce input was required for each industry and each factory, and then issued orders to each factory as to how much it was to produce and to whom it was to be shipped. GOSPLAN was subject to intense lobbying by powerful factory bosses regarding quotas and shipments, and allocations were politically mediated. While the FCC only controls the electromagnetic spectrum, it has operated in a very similar manner, and subject to the same political pressures. It should be no surprise that both GOSPLAN and the FCC processes have had similar results: woeful inefficiencies

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<sup>5</sup> By way of comparison, the FCC auctioned a total of 180 Mhz (in each metro area) for all digital cellular use.

<sup>6</sup> Balanced Budget Act of 1997. U.S. Public Law 105-33, 111Stat 258, 105th Cong., 1st sess., 5 August 1997

<sup>7</sup> 13 FCC Rcd 7418 (1998)

<sup>8</sup> Hazlett (2001) presents a thorough and carefully documented history of FCC spectrum decisions, illustrating the systematic inefficiencies of the administrative process with extensive case studies.

and wasted resources (see, for example, Kwerel and Felker (1985) and Kwerel and Williams (1992)).

There are few today that defend this system, yet all must work within it. The system is so embedded in how we use the spectrum that change is practically unthinkable. Current licensees received scarce spectrum years ago at zero cost from the government under the expectation that it would be theirs forever. These licensees include not only TV broadcasters and telephone companies using microwave relay systems, but police and fire departments, taxi dispatchers and paging companies. While zero-cost transfers represent a windfall gain to many licensees, to many others it is a component of their public service obligation that they could not otherwise afford. Is this a system that is admittedly highly inefficient yet with so many stakeholders that it cannot be changed?

## The Economists' Critique

**Ronald Coase** The seminal contribution of economists to the issue of spectrum allocation was made by Ronald Coase (1959). Coase was awarded the Nobel Prize in Economics in 1991, and in his Nobel autobiography, wrote of this work:

I made a study of the Federal Communications Commission which regulated the broadcasting industry in the United States, including the allocation of the radio frequency spectrum. I wrote an article, published in 1959, which discussed the procedures followed by the Commission and suggested that it would be better if use of the spectrum was determined by the pricing system and was awarded to the highest bidder. (Coase, 1991)

To an economist, this critique is as natural for the FCC's method of allocating a scarce resource as it was for the Soviet Union's method of running its economy. The market is a far more powerful and efficient allocator of resources than administrators and bureaucrats can ever be, no matter how knowledgeable and well intentioned. Efficient markets can realize their magic because they are highly decentralized processors of information. Prices are determined by buyers and sellers interacting in the market, to ensure that demand and supply are equated. The ability of the market price to capture all the information regarding supply and demand is far greater than that of a centralized planner no matter how sophisticated their planning and allocation tools.

Coase's critique seems, in retrospect, blindingly obvious. For almost all activities in the US economy we rely on markets to allocate resources, which work somewhere between pretty well and extremely well. Why is spectrum allocated using this wildly inefficient, Soviet-style means of administrative fiat? Coase's solution was to create sufficient property rights in spectrum so that it could be sold to private owners who would then be free to buy, sell and lease spectrum. In legal terms, ownership of spectrum would be ownership in fee simple<sup>9</sup>. Spectrum could be aggregated or subdivided, according to the

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<sup>9</sup> Fee simple is the most common type of ownership (usually applied to real estate, more generally any ownership) that allows the owner to have unlimited control over a property. *Black's Law Dictionary* (6th

needs of customers as expressed through the market. As a result, all frequencies would move to their highest valued use. For example, owners of inefficiently utilized UHF channels would have both the ability and incentive to sell or lease their spectrum to wireless telephony firms, or even become such firms themselves.<sup>10</sup> The price at which such transactions occur would reflect the demand and supply for spectrum; since certain frequencies are particularly useful for certain in-demand applications, these frequencies might well command a price premium relative to other frequencies, as the market dictates.<sup>11</sup>

Fundamental to the efficiency of markets is scarcity. If resources are not scarce, if consumers can pick their food off trees that are never exhausted and if there is infinite bandwidth, then there is simply no need to markets, which have costs to organize, administer and maintain. Early hunter-gatherer cultures existed in such a world of plenty; unfortunately, as populations expand, the previously plentiful becomes scarce and people must find a way to allocate these scarce resources. In our own time, we have seen the oceans undergo the same transformation, as fisheries historically treated as an international commons became overfished and stocks have had to be allocated. Over the long haul, costly trial and error has demonstrated that when resources are scarce, markets are the most efficient way to allocate these resources. Grand experiments with government (rather than market) allocation of economic resources have ended badly, to say the least.

Markets have also shown themselves to be particularly friendly to innovation, as owners of assets strive to make their property more valuable through the use of new technology.. Restricted licensing of spectrum, however, has the opposite effect. Since a licensee can only use his or her frequencies for their designated purpose, the incentives to innovate for a licensee are mitigated. An existing license holder may have incentives to innovate to increase the capacity of its frequency band if it can thereby serve more customers. For

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ed., St. Paul, Minn.: West Publishing Co. at p. 615, 1990) defines fee simple as follows: “A fee simple estate is one in which the owner is entitled to the entire property, with unconditional power of disposition during one's life, and descending to one's heirs and legal representatives upon one's death intestate. Such estate is unlimited as to duration, disposition, and descendibility.”

<sup>10</sup> Ownership generally confers two social benefits: (i) the owner has an incentive to deploy his or her assets in a way that maximizes the value of that asset, including selling or leasing it, which ensures that the asset is employed in its most valued use; (ii) the owner has a stewardship incentive to improve the asset (or not let it depreciate) if that increases its net value, such as improving land (in some cases, net value may be increased by permitting the property to depreciate). Spectrum ownership would satisfy the first but not the second condition, as it is neither improvable nor depreciable. While ownership permits spectrum assets to move to their highest valued use, the lack of a stewardship function may lead spectrum owners to be viewed as mere *rentiers* or “middlemen,” an economic function historically held in low regard by the general public.

<sup>11</sup> In some cases, a use may be highly valued publicly but not be amenable to private production. For example, PBS is a public broadcasting network that produces TV shows that might otherwise be produced but have some public benefit and so receives both governmental and charitable support. There are, of course, other examples of worthy endeavors that require governmental or charitable support, such as live opera. In a market model, PBS (or a similar service) would buy its spectrum with government/charitable funds if the sponsoring organizations believed this to be the best use of their funds for the public benefit. If they believed some other use superior, then PBS may not survive. But this is a decision best taken by this venture's sponsoring organizations.

example, current licensees of analog cellular wireless telephony bands may have incentive to convert these bands to digital cellular to make more efficient use of this spectrum. But since they are barred from different uses, innovation is limited only to existing authorized uses so that licensees' incentives to innovate are less than they otherwise would be.

As with any social change, transiting from a government-assigned licensing regime to a market regime almost always involves costs to incumbents who have large stakes in the existing system. As mentioned in the previous section, there are many beneficiaries of the current system and they can be expected to resist strongly any solution that involves taking back their long-held assets. We address this question in "Transitioning to Markets: A Modest Proposal," below. For the remainder of this section, we analyze a market-based system ignoring for the moment the problems of actually getting there.

As most college freshmen learn in Econ 1, not all markets work perfectly, and there is an extensive theory of "market failure."<sup>12</sup> One such "failure" that can arise from unrestricted use of property is a "spillover," in which one property owner's use creates costs (or benefits) to others. For example, a factory may produce pollution that is costly to others; alternatively, the owner of an apple orchard creates a positive spillover for the beekeeper next door (and vice versa). In the case of spectrum, spillovers in the form of out-of-band power in adjacent frequencies are important, and can generally be controlled by the careful definition of property rights. In today's regime, spectrum licensees operate under a set of technical restrictions regarding power and place of emission, and possibly direction and time of emission. In a property rights regime, these restrictions would be codified in the property rights of the frequency owner, who would then be subject to civil penalties should he or she violate these restrictions. In fact, such restrictions are often codified in property rights and laws. My right to use my automobile is restricted by speed limits; my right to use my real property is restricted by noise and nuisance statutes of my state, county and local municipality. Property rights in spectrum would be similarly constrained, and in fact we already know what the constraints are: they are largely defined by the technical (but not use) restrictions in current licenses. The spillover of interference in adjacent bands can thus be eliminated by suitably constraining each owner's property right to use his or her frequency, exactly as we do today. Therefore, the spillovers associated with out-of-band out-of-area frequency emissions can be fully internalized through the appropriate and careful definition of the owner's property rights.

**Interference** Radio interference is the spillover that is the entire rationale for government control of the spectrum. It is the interference spillover that requires limitations on the property rights of ownership in a market regime. While we focus on the property rights of the transmitters of radio energy, the problem of interference involves both transmitters and receivers. Restrictions on transmitters include in-band

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<sup>12</sup> Such failures include public goods (such as national defense and the justice system), information asymmetries (such as consumers' lack of knowledge about drug efficacy), natural monopolies (such as electric power distribution), and spillovers (such as pollution or network effects). Of these possible market failures, *only* spillovers appear to be present in the case of spectrum.

power restrictions, so one transmitter doesn't interfere with a transmitter at a distant location, and out-of-band power restrictions, to control emissions in frequency bands in use by others. But these constraints are based on the ability of the intended *receivers* to filter out spurious signals. For example, early TV receivers had little ability to reject power spills from adjacent TV broadcast bands. As a consequence, "guard bands" of spectrum were designated between each usable bands so that out-of-band power leakage would not impinge on nearby signals. The use of guard bands is very wasteful of spectrum, but necessary using the technology of the time. This made early TV sets relatively inexpensive. Today the ability to discriminate and filter out-of-band power leakage is very inexpensive to build into TV sets. However, the wasted spectrum is still there, "protecting" TV sets, so there is no need for manufacturers to upgrade their new sets.<sup>13</sup> The inefficiency of spectrum use is locked in because of receivers, not transmitters.

Agile radio is an excellent illustration of the equal importance of transmitters and receivers in defining interference. Simply put, agile transmitters are useless without agile receivers. As transmitters hop from frequency to frequency, receivers have to be able to follow them hop for hop, or they cannot communicate.

Today's technical rules on interference are likely to become tomorrow's property rights in spectrum. They are based on a balancing of the current technology of both transmitters and receivers. As the technology has evolved, the current licensing system has not been particularly successful at reclaiming valuable spectrum by changing the rules. An important question for any property rights regime is how well it permits property rights to evolve with technology.

**Enforcement** All property rights must be enforceable if they are to be meaningful. Today's licensees must be able to enforce their licenses, and if ownership of spectrum is permitted, owners must have a way to enforce their property rights.

Typically, property rights are enforced by the rights-holder lodging a complaint against an alleged infringer. This might be a simple call to the police that a stranger is trespassing on my land and refuses to leave. It could be a patent holder filing suit in court against another party accused of infringing on his or her patent. Under the current system, a licensee complains to the FCC who may then investigate the complaint and, if appropriate, punish the infringer. In an ownership regime, the rights-holder brings a civil suit against the infringer.<sup>14</sup> In certain cases, such as patent law, special courts are available for adjudicating such cases because of the specialized knowledge required. In a spectrum ownership regime, the FCC could retain an enforcement role, or this role could be subsumed by special "spectrum" courts, or by the general court system. Thus, there are a variety of enforcement models available for an ownership regime.

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<sup>13</sup> In fact, all modern TV sets have digital filters, simply because they are now cheaper and produce a better picture quality than the older filters.

<sup>14</sup> Public enforcement, such as the police, is usually only available if there is an immediate threat to life or property.



**Assumptions underlying fee simple ownership** Since the earliest days of broadcast, the use of spectrum by licensees has properties that are facilitated by a fee simple property rights regime (and facilitated, less efficiently, by the current licensing regime). These properties are:

*High power* Within the relevant geographic region, emission is at a high enough power that more than one emitter at the same (or similar) frequency will cause mutually damaging interference. In many cases, broadcasters emit 24 hours a day, 7 days a week, and non-interfering frequency sharing has not been possible.

*Dedicated Frequencies* Most broadcasters emit at a particular frequency (or a limited set of frequencies) so that simple receivers can easily locate them.

Under these assumptions, dedicating certain frequencies to high-powered licensees/owners is an efficient response to the interference problem. The difference between a fee simple property rights regime and the current licensing system is that a market-based regime is a far more powerful mechanism to achieve an efficient allocation of the scarce resource of spectrum. However, technology has not been standing still, and new technologies have begun to undermine these assumptions of high power and dedicated frequencies.

## **The Engineer's Critique**

Since 1938, the FCC has used its "Part 15" rules to permit the unlicensed use of certain "intentional emitters," such as garage door openers, CB radios and cordless phones.<sup>15</sup> Such unlicensed emitters have been constrained to operate only within certain frequency bands and at relatively low power. These limits are enforced by requiring the manufacturers of emitting devices to certify their products as having been tested and found to be within the FCC's frequency and power limits. Manufacturers are required to submit their devices to the FCC or an FCC-approved testing lab. The FCC may sample the product for compliance. Certification is required for imported as well as domestically produced electronic products. While there are opportunities for cheating the system, the consensus within the industry and the FCC<sup>16</sup> is that type certification has generally worked well at controlling interference, and industry cooperation has been successful.

The openness of Part 15 spectrum has also unleashed a torrent of innovation in spectrum use. Within the FCC constraints, engineers and scientists have developed systems for spread spectrum technology into cordless phones, wireless broadband networks into neighborhoods (such as Metricom's Ricochet service), short-range wireless LANs and wireless home networks (such as "WiFi"). Not surprisingly, radio engineers have lauded

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<sup>15</sup> Part 15 rules were originally adopted to cover "wireless phonograph," a device whose time has not yet arrived. It was later used to govern "unintentional emitters," such as televisions and personal computers, whose operation caused the emission of electromagnetic radiation. The rules limited both the power and the frequency of the emissions of such devices

<sup>16</sup> John Reed, Senior Engineer, Technical Rules Branch, FCC, personal conversation 4/10/02.

the openness of Part 15 spectrum as a boon to innovation. Compared to the almost complete lack of innovation in the licensed spectrum (see previous section), this indeed has been a godsend.

Further, many have noted that Part 15 spectrum has property rights akin to that of a commons: an asset available for the use of all, with common restrictions governing use restrictions for all. If innovation has been so forthcoming in a commons environment of unlicensed use, then why not extend the commons environment to the entire spectrum? Advocates of this approach compare the level of innovation that has occurred under this commons model with the much more disappointing level of innovation under the current licensing regime, which they sometimes refer to as a private property regime (which is clearly isn't).

Engineers point to two recent developments that would seem to make use of the commons model especially well: ultra-wide band (UWB) radio and software-defined radio (SDR). These two applications show great commercial promise, and appear on the surface to be incompatible with both the existing licensing model as well as a property rights market-based model. We discuss each in turn:

**Wideband** This form of radio emissions can be used for a variety of purposes, including ground penetration, through-the-wall imaging, and short-range “radar” for vehicles. It can also be used for two-way communications. The most successful wideband application today is spread spectrum, used in most cordless phones. This technology allows a signal to be “spread” across a range of frequencies, trading off power for bandwidth. Ultra-wideband (UWB) operates similarly but in a more extreme form. The signal to be transmitted is captured in small time intervals (about 1 microsecond) and the signal is converted to a set of very short pulses (about 1 picosecond) and these pulses are broadcasted over a very wide bandwidth (greater than 1 Ghz); the broadcaster emits this picosecond pulse in a time slot every microsecond at very low power; the receiver (which must be synchronized) picks up the low power signal over this wide bandwidth, and converts it back to (a very good approximation of) the original signal.

UWB essentially trades off power for bandwidth. The power of the emission is extremely low; for most purposes, it is part of the radio noise, and non-UWB receivers that are designed to reject noise would not recognize the signal, so there is no interference with high-powered broadcasters. The useful range of UWB at these power levels is rather short, at most a mile or two. Interference with other UWB emitters is unlikely; emitters more than, say, five miles apart can use the same transmit time slot without interference with each other, and there are many time slots. Additionally, UWB is fault-tolerant, in that the frequency pattern transmitted in the picosecond burst can suffer some degradation and the original signal can still be recovered.

On the other hand, the bandwidth of the UWB signal spans a large fraction of the total frequency available to all, and appears (if undetected) at many frequencies for which

licensees hold exclusive use. In a property rights market regime, UWB signals would also appear in frequencies owned by others, even if not detectable.<sup>17</sup>

Perhaps the clearest analogy is the right of an aircraft to pass over my home. As the property owner, I do not have the right to forbid aircraft to do so, nor may I charge them a fee to do so. However, aircraft regulations require that aircraft not fly lower than 1000 ft. over any obstacle within 2000' so as not to create a noise or safety nuisance.<sup>18</sup> The property rights of aircraft owners and pilots are restricted so as not to interfere (by noise or safety) with my property right to enjoy my home.<sup>19</sup> In a similar vein, UWB emissions are power-limited across the frequency band so as not to interfere with licensees' rights to use their frequencies.

**Agile Radio** This is a form of software defined radio (SDR), a term that covers a rather broad category of devices includes any device in which the received radio signal is processed by software. "Agile" radios are devices in which a radio can determine if a specific frequency band is currently in use, emit in that band if not, and switch to another band in microseconds if another user begins to emit in that band. Both transmitter and receiver must be agile for this system to function. For example, in principal an agile radio transmitter could use an empty ham radio band (or government military band) to communicate with an agile radio receiver; should a ham operator (or military user) start using that band, the transmitter would shift to another band within microseconds (the receiver presumably shifting as well, according to a pre-arranged script) and the agile radio communication continue while the ham operator would have the use of original band. Provided the agile radio switches its emissions to another band, it need not interfere with the ham band. As long as there are sufficient frequency bands so that the agile radio pair can always find an unused band, agile radio achieves a more efficient use of bandwidth without interference with existing licensees (or owners, in a property rights market regime).

Agile radio creates this increased efficiency by *dynamic* allocation of spectrum, rather than the current *static* allocation approach, common to both the current licensing regime and a property rights regime. For many purposes, static allocation is precisely what is needed; AM-FM and TV broadcasting of continuous content to relatively simple tuners will be a very important spectrum use for years to come, and static allocation works perfectly for this application. But dynamic allocation for certain uses can improve the

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<sup>17</sup> Note that UWB radio could broadcast at much higher power and have a greatly extended range; however, that would lift emissions out of the noise and become an interfering use. Even now, certain existing low power uses such as Global Positioning System (GPS) receivers claim UWB can cause interference with their systems if operated at somewhat higher power levels than recently approved by the FCC.

<sup>18</sup> Title 14, Code of Federal Regulations, Section 91.119 of the General Operating and Flight Rules

<sup>19</sup> Note that the current property right regime for real property could well be modified to permit homeowners to restrict aircraft overflight rights or set a price for each overflight, perhaps dependent upon altitude. There would clearly be a cost to such a system (though not as high as one might imagine), but only justifiable if airspace were a scarce resource, subject to congestion. Currently, airspace is regulated for safety and congestion concerns by the FAA (in the US) so a price system based on overflight rights is neither necessary nor particularly efficient.

efficiency of spectrum allocation, perhaps dramatically. In light of the inefficiencies of the current licensing regime, this would appear to be an important improvement.

## **New Technology and Property Rights**

While the new technology opens up new opportunities for efficient use of spectrum, using either of these technologies appears to violate the rights to exclusive use of the spectrum by current licensees. It also appears to be incompatible with a property rights market regime as well. Proponents of these technologies claim that they should be deployed in the context of a commons model, in which all can use the spectrum whenever they want, as long as we adopt simple rules to keep out of each other's way. In this view, property rights are the problem, not the solution; "building fences" of property rights violates the commons principle.

It is understandable that the developers of these new technologies hold the view that these innovations are likely to deploy most quickly and effectively in a commons regime. After all, much of the research was conducted within the Part 15 unlicensed spectrum, which is a commons regime. By comparison, the exclusive use licenses that cover the remaining spectrum actively discourage innovation, and little has occurred. No surprise, then, that engineers who believe "property rights" equates to the current licensing regime prefer the Part 15 commons model. No surprise, perhaps, but quite incorrect.

However, the use of a commons model for spectrum has certainly not been unalloyed good news. In some cases, it has worked rather well; for example, amateur radio service ("ham" radio) has been sharing spectrum since the 1920s. This is a rather specialized, even elite, group of radio operators, whose intense interest in and commitment to their avocation is not typical of the average customer. Perhaps more typical is CB radio, a Part 15 use established by the FCC in the early 1980s which became wildly popular. In fact, its wild popularity led to so much increased use that the CB band became heavily congested. But of course this is precisely the prediction of economics: if a service that depends on common resources becomes wildly popular, then the commons becomes over-congested and we have a tragedy of the commons. Conversely, a non-popular commons (such as ham radio<sup>20</sup>) shared by a specialized group may well be able to police its commons reasonably well.

It is important to establish that a commons regime *also* involves property rights; the existing Part 15 rules grant limited property rights to spectrum users.<sup>21</sup> The current

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<sup>20</sup> Some have argued that ham operators have kept their avocation selective by insisting the FCC keep various arcane licensing requirements, such as demonstrating proficiency in Morse code, as a barrier to entry. This requirement has only recently been lifted.

<sup>21</sup> One important case where a common property regime is in use is publicly owned land in the American West made available as rangeland for cattle owners. But the use of publicly owned property as rangeland involves a complex array of property rights and restrictions; it is not for everyone's use and the restrictions are severe.

regime involves property rights, a market-based regime involves property rights, and a commons regime involves property rights. The differences involve *which* property rights and how they are made available. A commons regime does not abjure property rights; in fact, it depends crucially on such rights and their restrictions. Note also that moving to a property rights market-based regime does not preclude public ownership of some of this resource. For example, land use in most countries is privatized; individuals and corporations own land, usually in fee simple, and can use, sell or lease it subject to deed and zoning restrictions. However, various governments own land for their own use, and may deploy some land in a commons mode; national and state parks are a good example. Therefore, moving to a private property regime does not mean that Part 15 commons-type spectrum would not be available. If the Federal government believed there was a public value in hosting a commons regime, it could purchase spectrum and open it up to anyone who wished to use it and establish the rules of use. But note also that it is not only the Federal government that can set aside a “Part 15 Park.” Any government can do so; if the City of Philadelphia wishes to encourage homegrown wireless entrepreneurs by having a “Philadelphia Part 15 Park,” it is free to do so, and it gets to set the rules. In fact, so are private parties are also free to set up commons-type spectrum, setting the rules of use and most likely charging a fee. We would expect that in the long run, both private and public parks would co-exist, serving somewhat different but complementary functions. Note, however, that the owner of the commons, whether public or private, will insist on rules and restrictions as part of the use of the commons. The purpose of these rules and restrictions is to control overuse of the commons.

It is also important to establish that private property rights are not about “building fences,” in the sense of not sharing, a term commonly heard in the engineering community about property rights. Under the current licensing regime, in which licensees can only use “their” spectrum themselves for narrowly defined uses, “building fences” is an accurate description of how licensees treat their spectrum, simply because the allocation process allows them no other choice. License holders *cannot* lease or share “their” spectrum to others on any basis. But a true market regime is not about exclusion; if the highest valued use of a property is a shared use, then that’s what the market will produce. In the market for real property, this is manifested by apartment buildings and hotels. Owners who are permitted to use their property as they see fit (as opposed to the current licensing regime in spectrum) will often find the highest valued use is a shared use and will make it as easy as possible for customers to share their property, thereby increasing the profitability of the property.

To return to the main question of this section, is there a property rights regime in which both the power of the market *and* the power of the new sharing technologies can *both* be released to improve the efficiency of spectrum use? The answer is that there are at least *two* property rights regimes that will do the trick.

*Non-interference fee simple ownership* In this regime, individuals and corporations would be able to buy, sell and lease specific frequencies in specific locations subject to power (and other technical) limitations, and would possess the right to emit at any time *without interference*. Other emitters could use this spectrum, but only on condition that they not

*meaningfully* interfere with the owner's right to clear broadcast. Thus, UWB emitters that maintained power levels below the noise threshold would be non-interferers. Agile radio emitters that vacated a frequency within (say) one microsecond after the frequency owner began broadcasting would be non-interferers. Conversely, either a UWB emitter exceeding its power ceiling or an agile radio emitter taking too long to vacate is an interfering user and becomes subject to penalties.

Enforcement under this regime would require that UWB and agile radio emitters transmit a unique identifier (similar to identifiers built into computer NICs) and frequency owners could monitor and record violations. Penalties could be assessed much as traffic violations are handled; it is likely that third-party collection agencies would arise to handle these violations on behalf of owners. Such monitoring would result in costs to owners. Fines for violations could recompense owners for these expenses.

These two property rights regimes focus on the *emitters* of radio energy; how about the *receivers*? The introduction of new technology in one band may only be possible if receivers in adjacent bands can accommodate the new technology, which may require a costly upgrade. We noted above that in the case of many receivers in adjacent bands, this could be infeasible if the new service providers had to convince owners of legacy receivers in adjacent bands to upgrade. However, the current radio industries have been successful using voluntary standard-setting among manufacturers. This model focuses on the manufacturers of receivers rather than end-customers, in particular on the chip manufacturers whose products constitute the core of both receivers and transmitters. If the industry can agree that (say) the introduction of agile radio is likely to result in more business for all participants, but at the cost of increasing filtering capabilities for receivers in adjacent bands, then chip manufacturers may agree to establish enhanced standards for new receivers (for these adjacent bands) effective immediately. If the average life of such a receiver is (say) three years, then the agile radio service providers could begin using their technology in bands adjacent to the interferees after (say) twice the average receiver life, or six years, assuming that most receivers in the field at that point incorporate the enhanced standards.

The use of voluntary industry standards appears to have worked successfully in computer hardware and software. As new bus architectures have been developed in the PC market, software developers and peripheral manufacturers produce to the new standard while maintaining backward compatibility for some period of time. Eventually, compatibility of complementary products with sufficiently old systems is dropped, and the technology moves on. We believe this model is likely to work in the wireless world as well.

*Fee simple ownership with real-time leasing* In this regime, individuals would be able to buy, sell and lease specific frequencies in specific locations subject to power (and other technical) restrictions, and would possess the right of *exclusive use*. Other emitters could use this spectrum, but only upon payment of a fee to the owner. Sharing fees could cover a range of options, from a long-term lease for the entire band to agile radio non-interfering use. The prices would vary, depending on the nature of the lease arrangement, with non-interfering uses such as agile radio most likely priced the lowest. Agile radio

users could negotiate long-term use of a band (“forward contract”) or negotiate band use at the moment of use (“spot market”). We would expect agile radio users would negotiate with various band owners in both markets. Prices in the two markets would generally differ.

Collection of the fees would also involve costs for the owners, as *all* uses would have to be recorded, not just interfering uses.<sup>22</sup> Just as agile radio transmitters would be required to broadcast a unique identifier, owners would have to broadcast their price for use. Agile radio transmitters could thus “shop” for the least expensive frequencies.<sup>23</sup> It is likely that third-party collection agencies could manage the flow of lease revenues from users to owners, which may well involve thousands of lessees making very small payments each to thousands of lessors. However, there exist institutions that can handle this problem at minimum transactions cost, even without the magic of computers. A similar situation arises in the payment of royalties owed to musicians every time a song is played on the radio or in a jukebox. There are two associations, BMI and ASCAP, that monitor radio playlists and jukebox records, bill the responsible parties and send the receipts to the owners of the music. A similar arrangement is likely to be successful for band use micropayments as well.

*Military and Public Emergency Spectrum Use* This unique use places unique demands on spectrum management. During an earthquake or defense contingency (local or national), there is no time to ask permission or negotiate with other parties; military and public emergency personnel need to have immediate preemption capabilities for spectrum capacity substantially larger than their everyday administrative needs. Under the current system of allocating spectrum, this requires that the maximum amount of spectrum be allocated to these uses, even though it is hardly ever used. Using agile radio technologies, this spectrum can be made available to others for routine use, with the contractual proviso that military and public emergency users have an absolute and immediate preemption right to the spectrum. There is a strong precedent for this; all private broadcast and cable systems can be immediately preempted by civil defense authorities who can commandeer their spectrum as part of the nation’s Emergency Alert System,<sup>24</sup> which has a long history of over half a century.

*Likely outcomes of a regime change* Both economists and engineers agree that the current licensing regime has led to grossly inefficient use of the spectrum resource. Under either of the two regimes outlined above, the alleged “spectrum drought” will almost surely turn into a “spectrum flood,” as large amounts of underutilized spectrum come into the market. *In the short run*, excess demand will likely turn into excess supply, except perhaps in certain especially useful frequency bands. In this situation, *the market-*

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<sup>22</sup> Obviously, such measuring and metering devices do not exist today, as there is no use for them in the current licensing regime. The technology to create such devices is well within today’s state of the art; the likely cost is not great and if produced in volume are likely to be low cost.

<sup>23</sup> This plan is quite similar to that suggested by Eli Noam, “Spectrum Auctions: Yesterday’s Heresy, Today’s Orthodoxy, Tomorrow’s Anachronism,” *J. Law & Econ*, **XLI** (Spring), 765. See also a critique of this plan by Thomas Hazlett, “Spectrum Flash Dance: Eli Noam’s Proposal for ‘Open Access’ to Radio Waves,” *J. Law & Econ*, **XLI** (Spring), 765.

<sup>24</sup> See <http://www.fcc.gov/eb/easfact.html> for a description of the Emergency Alert System.

*clearing price of spectrum*<sup>25</sup> (except in certain highly desirable bands) *is likely to be zero* (or very close to it). While this may not be good news to cellular carriers who have spent billions on bandwidth made scarce by government regulation, it is good news to the consuming public and we should welcome it. Under either regime, the artificial scarcity created by the current licensing regime is eliminated.

We would also expect that the fees owners would charge for the use of their spectrum in a property rights market-based regime would also be zero. If there is excess supply of spectrum, then we are in the world of the commons in which there is no scarcity. Because high power dedicated frequency users would still be very important and would have to co-exist with UWB and agile users, non-interference would still be necessary. However, owners would not find it profitable to invest in metering gear to monitor band use for which they cannot charge more than zero. In this short run scenario, the two regimes are likely to look exactly the same: UWB and agile radio are permitted to use all spectrum at zero price, provided they guarantee non-interfering use.

With a change to either regime, then, the short run picture looks the same: fee simple ownership with non-interfering uses permitted or accepted. In the long run, however, the picture changes. Having freed up the spectrum shackled by years of government allocation, we would expect engineers' creativity would kick into high gear and bring us a multitude of new uses for spectrum undreamed of today. The demand for spectrum is likely to grow very rapidly; in the not-too-distant future, this new "unlimited bandwidth"<sup>26</sup> would become limited indeed, as demand grew to meet the available supply. The nature of the market changes, and spectrum bandwidth now becomes a scarce resource; not now, but in the future.

In a long run world of spectrum scarcity (real this time, not the artificial scarcity of government allocation), prices are no longer zero and the commons model breaks down. Agile radios will find the next frequency they hop to is busy, as is the next, and the next, and so forth. As the airwaves congest, the best solution will be the market, as it is for virtually every other economic good or service. In the long run, therefore, the "fee simple with real-time leasing" becomes the efficient model. In a world of real spectrum scarcity, owners will invest in metering gear and charge users a positive price, ensuring that the spectrum is allocated, in real time and otherwise, to its highest valued use.

How would a pure commons regime work? Unfortunately, high power dedicated spectrum uses are likely to be a fixture of any system for a long time, and such uses fare poorly in a commons model as there is no guarantee of non-interference from other high power dedicated frequency users. This would reproduce the radio world of the early 1920s. If *all* users were forced to undertake a costly upgrade to agile radio (or UWB, if

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<sup>25</sup> That is, the price at which demand and supply are equal.

<sup>26</sup> The pre-1996 Internet community was particularly fond of the "unlimited bandwidth" vision of the Internet. Everything could be free, it was argued, because the bandwidth of the Internet was virtually unlimited. Post-1996, the phenomenal growth of Internet traffic quickly dispelled the notion of unlimited bandwidth; new applications engendered new demand that quickly exhausted what had appeared to be unlimited supply, and then some. Similarly, we have great faith in electronic engineers and entrepreneurs to create a demand for spectrum that will fill every nook and cranny of it.



feasible), then a commons regime may be workable in the short run, as long as scarcity is not an issue. However, as new devices and new uses proliferate, spectrum scarcity will become reality. There still is a limited amount to go around, and at some point it will get used up. This is especially true of “sweet spot” spectrum that is particularly good for certain popular services such as cell phones. In this long run view, a commons regime is quite limiting, and another regime change to markets will be required.

Is it likely that in the long run spectrum will indeed become scarce? While today’s massive underutilization of spectrum suggests that markets and new technology may increase available spectrum by orders of magnitude, we have no doubt that clever engineers and aggressive marketers will find ways to fill that spectrum with new and useful gadgets that we all must have. We believe the long run answer is clear: ways will be found to use all the spectrum we can make available, and eventually it will become scarce.<sup>27</sup>

*Conclusion* A property rights market-based regime is compatible with the deployment of both UWB and agile radio using either the *non-interference fee simple ownership* or *fee simple ownership with real time leasing*. In the short run, either regime is likely to free up so much spectrum that this resource will be in excess supply, and both regimes will lead to zero-price use of all (or most) spectrum by both UWB and agile radio. In the long run, as this resource becomes better utilized and spectrum becomes scarce, the fee simple ownership with real time leasing model becomes more attractive as a superior method to manage scarcity.

## **Transition to a Market-based Regime**

Our paper thus far has compared the “end-states” of three regimes: the current licensing regime, either of two market-based regimes, and a commons regime, without discussing how the latter two could actually be obtained in the context of spectrum politics. We argue above that either of the two market-based regimes have more attractive economic properties, especially the real-time leasing regime in the long term.

Any transition plan from the current regime to a market-based regime inevitably will create winners and losers. Losers, of course, will oppose the transition, and winners may favor it but seek even greater gains. In other words, the process is essentially political and the transition must be structured to ensure that all or most stakeholders are not harmed.<sup>28</sup> We thus take the world as it is (warts and all) and seek a politically viable transition plan to a more efficient regime.

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<sup>27</sup> A more subtle point is that technological advances can increase the efficiency with which we use spectrum. But if more spectrum is available at zero cost, then it doesn’t pay to invest in using spectrum more efficiently. Only as spectrum becomes scarce (as it is now, artificially, and as it will be in the future, for real) does it pay to invest in more efficient use.

<sup>28</sup> Inevitably, that means perceived inequities that have been built into current system will not be “corrected.” Some may view certain current licensees as undeserving of reward, either because they received their licenses through questionable political dealings or from corporate power. We believe that

We present this proposal in broadest conceptual outline, without pretense that the technical details have been worked through. We do not claim authorship of this proposal; this transition plan has been put forward by Kwerel and Williams (2001) of the FCC. We endorse this plan as a starting point for a “win-win” transition to the market-based technology-friendly regime we believe we need.

The main features of this transition plan are: (i) it moves from a government allocation scheme to a market-based regime; (ii) it is wholly voluntary on the part of current license holders; (iii) incentives are provided so that current licensees will place their current license asset into the market; and (iv) it eliminates all use restrictions and keeps all technical restrictions as limits on the eventual owners’ property rights.

The process:

1. The FCC and NTIA announce that in one year’s time, an auction will be held for all spectrum technically available for broadcast, including all government-held spectrum for defense, police, fire and other public safety uses, and “white space” spectrum held by the FCC.
2. Each licensee may choose to place its spectrum in this auction; it need not do so, but if it does not, then for a period of five years it is prohibited from taking advantage of buying, selling or leasing spectrum and will continue to be limited to its licensed use.
3. A licensee may place its spectrum into the auction simply by notifying the FCC of its decision.
4. The auction is held; any party can bid on any spectrum band it wishes, including part of an existing spectrum license. If its bid is accepted, *the current licensee receives the full bid payment*. The successful bidder acquires ownership in fee simple (under whichever of the two regimes discussed in the previous section) with no restrictions on use but all technical restrictions.
5. No current licensee is required to accept a bid for spectrum it has placed in the auction; it has the “right of first refusal,” and may keep the spectrum regardless of the bid.<sup>29</sup> If the licensee accepts the bid, *then the entire bid is paid to the existing licensee*.
6. If the current licensee decides to keep all or part of the frequency band of his license, it becomes his property (under whichever of the two regimes previously discussed); all use restrictions are lifted, all technical restrictions remain. The owner is now free to buy more spectrum, sell all

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moving toward a more efficient regime of spectrum allocation is far more important than correcting for perceived inequities in the current allocation of licenses.

<sup>29</sup> It would appear that there is no economic reason to hold spectrum back from the auction, as the current incumbent always has the right to refuse all bids. This is correct; incumbents are better off placing their spectrum into the auction than not. The holdback option gives all incumbents a pure “no change” option, and can help focus managers and shareowners on the benefits of using the auction process to value their asset and possibly monetize it.

or part of his or her existing spectrum or lease its spectrum for any length of time.

7. After this “big bang” auction, we expect an active secondary market in spectrum to arise, in which owners of spectrum can trade freely. The FCC (and NTIA) would exit the spectrum management business altogether (except possibly for certain enforcement duties).

The purpose of holding the auction of all spectrum at the same time is to ensure liquidity; there is enough spectrum available that bidders can be assured of getting what they want and selling what they want. Additionally, the single auction becomes a salient event, capturing the attention of top corporate managers. This ensures that top management becomes aware that they may be able to capitalize their spectrum license asset to improve shareholder value. Spectrum managers further down in the organization may have no such incentive, preferring simply to hold on to their jobs as experts in FCC regulations. With top-level corporate attention, it is more likely that spectrum would end up in the auction.<sup>30</sup>

Most important, there would seem to be few if any losers from this process. Current holders of spectrum licenses would be afforded the opportunity to capitalize some or all of their assets; if they chose not to do so, they now own these assets and can use, sell or lease them as they wish in the future. Those who are not current licensees but who require spectrum for their business plans now have the opportunity to buy it on the open market. No one is forced to put their spectrum at auction; but if they choose not to do so, they cannot take advantage of the new regime for five years. Everyone, it would appear, is better off with this process.

## Conclusion

In this paper, we considered property rights regimes in spectrum as alternatives to the current licensing regime, which appears to lead to substantial inefficiencies in spectrum allocation. We noted that economists have favored a market-based regime while engineers have favored a commons-based regime to promote new technologies. We show that there are at least two property rights market-based regimes that unleash the power of the market and unleash the power of the new technologies to efficiently allocate spectrum that is likely to meet our needs for the near-term future. The presumed dichotomy between the market-based and the commons-based views has been resolved, so that both objectives can be realized. We also outline a transition process to achieve the desired regime outcome that is a “win-win” for all stakeholders, and is likely to be politically feasible. The change to a property rights regime is likely to lower the cost of spectrum substantially, in many cases to zero. Both a commons model and a market model can co-exist it would seem, at least until spectrum becomes truly scarce.

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<sup>30</sup> A similar situation obtains in the public sector. A police chief has little incentive to put his or her excess public safety band in an auction; however, his mayor and city council might consider a partial sell-off of police bandwidth a good budgetary tradeoff.



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