

An opportunity lost in Spain  
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The U.K. government raised 6.3 billion of pesetas with the auction of third-generation mobile-phone (UMTS) licenses. In Germany, it is expected to be raised around 10 billion. France, conscious of licenses' value, will allocate them by contest, but the firms selected will have to pay the government 3.29 billion pesetas. In Spain, instead, the Government has chosen a contest without auction that has obtained 85.000 million pesetas. Although its importance, the process has developed without repercussions, within electoral campaigns and an 'in office' Government, exclusive of a critical debate about the political opportunity and the economic rationale of the decision taken. Moreover, two of the firms without license have appealed the Spanish contest, claiming irregularities and pointing out the ambiguity of the criteria used.

Auction Theory, developed by Professor Klemperer of Oxford University among others, which combines Economic Theory fundamentals with principles such as the ones derived from Game Theory, shows that auctions are efficient methods to allocate scarce productive resources. In an auction, generally, a bidder is willing to pay an amount equivalent to the future benefits he expects to receive. Auctions guarantee the rights to whoever is willing to pay more for them and not to those that have more 'lobbying' power during the allocation process, as stated by Professor Milgrom from Stanford University. In a formal auction, bidders generate and release market's information while fighting for the rights, and everybody learns from everyone else's actions. Therefore, the Government can extract and use more information than in a traditional contest, or beauty contest as Klemperer calls them, so the result achieves an efficiency level and transparency very hard to match.

The license auction's process is simple. A firm bids the minimum amount that it considers enough to obtain the assets it wants. The bid also depends on the firm's

beliefs about other contenders' bids. Occasionally, an excess of optimism could lead to bankruptcy, a possibility that, however, does not represent an auction's principal practical problem. The most serious concern in an auction is the possibility of collusion between firms or generating entry deterrence to the market.

An auction's success relies on its design, which should be tailored to the specific context, and on how well defined are the competitors' rights. The outcome is a function of several factors, such as the number of competitors and licenses auctioned, as well as the proportion of potential new competitors. In the U.K. auction, there were more licenses in stake than mobile-phone firms already in the market. Therefore, the incumbents did not bid below the licenses' value, because there was a real threat of other firms entering the auction. Additionally, they did not incur in implicit collusions because of the threat, the main one faced by a firm in an auction, of being dismissed from it. Klemperer considers that the poorly designed German auction for mobile-phone licenses of 1999 allowed Mannesmann and T-mobil to implicitly take advantage from it. This expert (Klemperer) contributed in the British auction's design, which looked (within market's viewpoint) for the most efficient solution and, what in Spain seems ignored, the best solution from a social perspective.

Auction's detractors argue that this process, because of licenses' cost, could jeopardise firms' future viability and, most of all, their short and medium-term investment capability. However, firms that undertake higher risks in an auction are usually the ones that put up more effort to recover the licence's cost, and if they do not have profits, there is always the option to sell the license. Moreover, the amount paid for the license can be considered a fixed cost, so it will not change the marginal return of the investment and, consequently, any additional future benefits. The firms that obtained UMTS licenses in Spain were offering billionaire amounts to buy Internet's portals while bidding, billions as well, in the British auction (before quitting, another important option). There are several examples of extraordinarily

high bids in Spain, against all odds, but currently they have proven to be fair and accurate, as the one held by Banco Santander over Banesto.

Auction's system is also criticised for political and financial reasons. Within this context, critics' argument is that the government's main objective when releasing new licenses must not be raising money, but introducing new technology and services that will enhance economic efficiency and generate wealth. This argument, acknowledged by Gaspar Ariño among others, is quite hard to refute. That is why, against auctions, he defends contests with clear and rigorous criteria, where the public objectives pursued are perfectly identified, and any political pressures are avoided. However, it is even harder to back up the idea that social welfare will be optimally maximised in a contest, giving away licenses without an auction. Normally, the former argument is matched with the assertion that licenses do not belong to the government, which are in fact owned by the society. Therefore, the government does not have the right to lay hands on and auction them. Here is where the argument gets more complex. Spain lacks a coherent argument to explain why the government, manager and not owner, transferred the licenses to private firms free of charge. If we were dealing with other type of licenses, i.e. to extract oil from the domestic coastline, probably nobody would agree with this process.

The only evidence for the society is that some public resources, that could have been market-valued objectively, were exchanged for nothing with private firms. There is no evidence to prove that the licenses' price could endanger the investment required, an amount which is not immense anyway, and there is no guarantee either that the investment will be safer just for the fact that nobody paid for it. Furthermore, there are halfway solutions. In the U.K., the current debate is what to do with the money. In Spain, obviously, that debate is now unfeasible. A share of those resources, if they happened to exist, could have been allocated to network infrastructure and technical education (human capital), issues in which Spain bears a distressing gap compared to the rest of Europe.

These measures, in addition, would affect the use and therefore, the future profits of these new services. Alternatively, Eurostat will allow that the revenue obtained in this way helps to lower the fiscal deficit. This is the debate that is being shaped in other countries, U.K., France, Germany, and the one that here, incomprehensively, has been shut down. Undeniably, at least it should be asserted that the process chosen to allocate UMTS mobile-phone licenses is very doubtful. Because of this issue's magnitude, and the money transfers and future revenues that have been involved, perhaps equal to the total amount obtained by all Spanish privatisations, seems to deserve much more attention than the one paid during the last months.

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