



Beyond Anecdotal:

Broadband is Good for Communities

By Steven S. Ross ■ *Editor-in-Chief*

A week does not go by without a reader asking about studies on the economic impact of broadband. Often, readers are asked by a banker to justify a broadband proposal – either as a developer, or a municipal official, or as an officer of an independent telephone company or equipment vendor.

But the real world is rarely accommodating enough to provide ironclad proof about such matters. As in any non-monopolistic business proposition, results are never guaranteed. In Korea, housing ads feature a symbol for speed of broadband connectivity. The faster the connection, the more expensive the house or apartment. But in the United States, fast-rising housing prices have at least partially masked the effect. Michael Render interviewed a small sample of developers installing fiber to the home in 2003 and 2004, finding that FTTH increased the value of a new home \$4,000 to \$7,000. He tells me that several developers provided anecdotal references that FTTH led to higher prices and that some developers say homes sell faster than similar homes in similar subdivisions with similar amenities except for FTTH.

Some of the largest homebuilders and builders of rental properties have told us they have data from their own operations indicating the same thing. Roseland Property Company, featured in our January issue, puts broadband (these days, fiber) into every MDU property it builds. Roseland is one of the largest MDU builders in the Northeast. Pulte, by some measures the largest homebuilder in the nation, seeks FTTH in its developments (especially its upscale developments).

What about midrange communities, rather than upscale greenfield projects? Last December, we published an update by Doris Kelley of her often quoted study comparing Cedar Falls Iowa with neighboring Waterloo. Cedar Falls, with fiber, has jumped ahead.

This month, four researchers from MIT and Carnegie Mellon bring it all together

for our cover story. The story is based on a breakthrough study that is almost impossible for mere mortals to digest. Said one reader after I sent it to him, “Now I know why MIT didn’t accept my application. I think I’ll hold out for the layman version.”

We proudly present that version. It still takes time to digest, but the meal will be worth it.

It is easy to see what happens when broadband is unavailable, or too expensive, however. And we don’t need economists to see why.

Jamaican Example

I’ve been teaching and working occasionally in the Caribbean since the 1980s. More than a decade ago, I saw inefficient, government-owned telephone companies sold mainly to Cable and Wireless. Phone service did become more reliable and easier to get, but at brutally high cost. I’ve seen first-hand how Cable and Wireless’s heavy hand has stunted business growth. Most Americans seem to think of the Caribbean as backward and slow-moving. Actually, its people are well educated and remarkably entrepreneurial.

This October, the State Department asked me to come to Jamaica to give some speeches and talk to students and to government officials about broadband. Jamaica is, except for economically isolated Cuba, the largest country in the region: 2.7 million people, GDP of about \$11 billion. On a purchasing-parity basis, it works out to only \$4,000 per capita. Yet there are 1.4 million cell phones in use, and about 500,000 landlines. This in a country with a million households!

Cell phone per-minute charges are among the highest in the world, at 15-20 cents a minute, double to quadruple US rates. A “broadband” line is 128 Kbps and costs as much as DSL in the US. Buildings at the University of the West Indies campus are connected with Gbps links, and production of material for distance learning is world-class. But the 6,000+

students there share only a 20 Mbps link to the outside world.

There’s more. Jamaica exports \$1.8 billion annually, mainly aluminum ore, agricultural products and textiles. It imports more than \$4 billion, however. Most of the difference is made up by tourism and by remittances from Jamaicans living abroad. Remittances last year were \$1.7 billion – a doubling in only four years. True, the number of Jamaicans living abroad is ever increasing. On average, they are doing better financially now than in 2001. But a doubling of remittances? There is a drug trade as well, but that, too, has been stable – probably increasing, but certainly not doubling.

Hypothesis: Much of the increase in “remittances,” perhaps \$400 million or more, is due to growth in e-commerce. It is easy to see. Google Jamaican music or tourism, for instance, and dozens of ads appear. But all of the Websites are in the US or Europe. Jamaica does not have the broadband infrastructure to host e-commerce. It gets the profits, but many jobs (shipping, packaging, manufacture of CDs and so forth) go elsewhere.

Many government officials were in the audience for one of my talks. They noted that Cable and Wireless was asking the government to control VoIP calls, because its use is cutting into tax collections on switched phone calls. They saw immediately that taxes were insignificant compared to e-commerce. The government will be changing in a few months; the current Prime Minister is retiring. No matter who wins, it looks like I will get a chance to make more trouble for the incumbent carrier. After all, putting FTTH through the entire country would probably cost only \$1 billion or so, mostly for local labor.

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