

waste areas weren't adequately cleaned up. But when the price tag for the average Superfund cleanup is \$43 million without producing measurable results, Benjamin contends, Americans should face a painful conclusion: The "Superfund program is failing and it is time to stop pretending otherwise."

POLITICS & GOVERNMENT

The Higher-Ed Bubble

THE SOURCE: "Will Higher Education Be the Next Bubble to Burst?" by Joseph Marr Cronin and Howard E. Horton, in *The Chronicle of Higher Education*, May 22, 2009.

AFTER THE COLLAPSE OF THE dot.com and housing markets, will the next irrationally inflated bubble to burst be higher education?

Educators Joseph Marr Cronin and Howard E. Horton think it might. With tuition, fees, and room

and board at dozens of private institutions now topping \$50,000 a year, some parents are questioning whether it is worth \$1,000 a week to send their kids to college. The middle class has traditionally paid for higher education through loans, but home equity has withered and jobs are at risk. Congress recently raised the Pell grant limit from \$4,731 to \$5,350 a year. Potentially a big deal for the federal budget, the increase doesn't even cover an extra week at some private universities.

College tuition and fees have increased 440 percent over the last quarter-century, more than four times the rate of inflation. And even demographics are conspiring against the current college finance model. The "baby-boom echo" that flooded so many colleges over the past few years crested with this year's high school senior class. From here on, enrollment is downhill for the foreseeable future. The state of Vermont expects to turn out 20 per-

cent fewer potential college freshmen by 2020, report Cronin, former Massachusetts secretary of educational affairs, and Horton, president of New England College of Business and Finance.

Cheaper alternatives to traditional higher education are increasingly available. The University of Phoenix now teaches upward of 300,000 students a year, half of them online. Applications to community colleges and other public institutions have already risen dramatically. Some former college presidents are proposing year-round school so that expensive facilities get used 52 weeks a year, instead of only about 30, and others are calling for three-year degrees.

Critics have highlighted the mounting costs of higher education for 30 years without having much impact. Maybe, the authors say, the economy is now in dire enough shape that the warnings will take.

ECONOMICS, LABOR & BUSINESS

Broadband Hype?

THE SOURCE: "The Internet and Local Wages: Convergence or Divergence?" by Chris Forman, Avi Goldfarb, and Shane Greenstein, and "The Broadband Bonus: Accounting for Broadband Internet's Impact on U.S. GDP" by Shane Greenstein and Ryan McDevitt, summarized in the *NBER Digest*, April 2009.

IT SEEMED INTUITIVELY OBVIOUS: If you made high-speed access to the Internet available in

sparsely populated areas, rural America would enjoy the same sort of economic boost that urban America did when broadband largely replaced slower dial-up Internet access during the last 10 years. Notably, it seemed obvious to President Barack Obama, whose \$789 billion economic stimulus bill

enacted by Congress in February included up to \$7.2 billion in grants and loans to expand high-speed access in remote corners of the country. A strong economy, Obama said, "means expanding broadband lines across America, so that a small business in a rural town can connect and compete with their counterparts anywhere in the world."

But as is sometimes the case, what seems obvious may in fact be wrong. Chris Forman, Avi Goldfarb, and Shane Greenstein, of the Georgia Institute of Technology, the University of Toronto, and

Northwestern University, respectively, found in a survey comparing economic performance in 1995 and 2000 in 2,743 counties that the introduction of advanced Internet services spelled wage gains mainly in areas that already enjoyed high wages.

Despite the theory that broadband would reduce the natural advantages of cities, Forman and colleagues find “little evidence that the Internet had much impact in rural areas,” and conclude that their results “do not support the use of subsidies to build infrastructure to lower that gap.” Many rural areas lack the highly skilled workforces necessary to capitalize on broadband.

In a separate paper, Greenstein and Ryan McDevitt, also of Northwestern, explore the economic growth generated by the switch to broadband. In September 2001, only 10 million American households had broadband Internet access, compared with 45 million that relied on slower dial-up. By March 2006, broadband had overtaken dial-up—47 million households to 34 million.

Certainly, surfing the Internet is more enjoyable when it’s fast, but did the economy benefit from the switch to broadband? Greenstein and McDevitt say that payments for Internet access generated \$39 billion in 2006 with \$28 billion of the total coming from broadband.

The figures aren’t pocket change, Greenstein and McDevitt say, but at less than 0.3 percent of gross domestic product they fall

far short of the “oversized” figures batted around Washington by policy analysts and lobbyists.

ECONOMICS, LABOR & BUSINESS

The Economists’ Bailout

THE SOURCES: “Missing Links: An Intellectual Bailout” by Moisés Naím, in *Foreign Policy*, Jan.–Feb. 2009, “Goodbye, Homo Economicus” by Anatole Kaletsky, in *Prospect*, April 2009, and “A Question for the Economists” by Harvey Mansfield, in *The Weekly Standard*, April 13, 2009.

EARLY ON, AMERICANS BLAMED rapacious bankers, reckless borrowers, lax regulators, compromised politicians, and greedy CEOs for the financial crisis. Now, with the recession midway through its second year, the onus is spreading to economists. The financial crisis has destroyed the fiction that economics is a science, contends Moisés Naím, editor in chief of *Foreign Policy*. The profession needs an intellectual bailout.

First to go should be the pernicious concepts of “rational” investors and “efficient” markets, says economist Anatole Kaletsky, editor at large of the London-based *Times*. On the backs of these two adjectives, “academic economists erected an enor-

According to one economist, the problem with his discipline is that false theories developed a stranglehold on academia.

mous scaffolding of theoretical models, regulatory prescriptions, and computer simulations which allowed the practical bankers and politicians to build the towers of bad debt and bad policy” that have come thundering down. While it was always known that not every market was perfectly efficient, failures were chalked up to such problems as a lack of competition or tax distortions. Absent proof of collusion, fraud, tax distortions, or other anomalies, it was taken as axiomatic that competitive markets would deliver rational and efficient results.

The scandal of modern economics, according to Kaletsky, is that false theories developed a stranglehold on academia. The rational expectations hypothesis asserted that a market economy should be viewed as a mechanical system governed by clearly defined economic laws, immutable and universally understood. It allowed the construction of precise mathematical models for economic behavior. The efficient market hypothesis explained that financial markets, because they were populated by a multitude of rational and competitive players, would always reflect available information in the most accurate possible way. Such theories flourished because they “justified whatever outcomes the markets happened to decree—laissez-faire ideology, big salaries for top executives, and billions in bonuses for traders.”

Kaletsky argues that economics must be revolutionized or abandoned as an academic discipline. Instead of using oversimplified assumptions to create mathematical