Will Higher Education Be the Next Bubble to Burst?

By JOSEPH MARR CRONIN and HOWARD E. HORTON

The public has become all too aware of the term "bubble" to describe an asset that is irrationally and artificially overvalued and cannot be sustained. The dot-com bubble burst by 2000. More recently the overextended housing market collapsed, helping to trigger a credit meltdown. The stock market has declined more than 30 percent in the past year, as companies once considered flagship investments have withered in value.

Is it possible that higher education might be the next bubble to burst? Some early warnings suggest that it could be.

With tuitions, fees, and room and board at dozens of colleges now reaching $50,000 a year, the ability to sustain private higher education for all but the very well-heeled is questionable. According to the National Center for Public Policy and Higher Education, over the past 25 years, average college tuition and fees have risen by 440 percent — more than four times the rate of inflation and almost twice the rate of medical care. Patrick M. Callan, the center's president, has warned that low-income students will find college unaffordable.

Meanwhile, the middle class, which has paid for higher education in the past mainly by taking out loans, may now be precluded from doing so as the private student-loan market has all but dried up. In addition, endowment cushions that allowed colleges to engage in steep tuition discounting are gone. Declines in housing valuations are making it difficult for families to rely on home-equity loans for college financing. Even when the equity is there, parents are reluctant to further leverage themselves into a future where job security is uncertain.

Consumers who have questioned whether it is worth spending $1,000 a square foot for a home are now asking whether it is worth spending $1,000 a week to send their kids to college. There is a growing sense among the public that higher education might be overpriced and under-delivering.

In such a climate, it is not surprising that applications to some community colleges and other public institutions have risen by as much as 40 percent. Those institutions, particularly community colleges, will become a more-attractive option for a larger swath of the collegebound. Taking the first two years of college while living at home has been an attractive option since the 1920s, but it is now poised to grow significantly.
With a drift toward higher enrollments in public institutions, all but the most competitive highly endowed private colleges are beginning to wonder if their enrollments may start to evaporate. In an effort to secure students, some institutions, like Merrimack College near Boston, are freezing their tuition for the first time in decades.

Could it get worse for colleges in the coming years? The numbers of college-aged students in the "baby-boom echo," which crested with this year's high-school senior class, will decline over the next decade. Certain Great Plains and Northeastern states may lose 10 percent of the 12th-graders eligible for college. Vermont is expected to lose 20 percent by 2020.

In the meantime, online, nontraditional institutions are becoming increasingly successful at challenging high-priced private colleges and those public universities that charge $25,000 or more per year. The best known is the for-profit University of Phoenix, which now teaches courses to more than 300,000 students a year — including traditional-age college students — half of them online. But other competitors are emerging. In collaboration with an organization called Higher Ed Holdings—which is affiliated with Whitney International University, owner of New England College of Business and Finance, where one of us is president and the other a trustee—some state universities have begun taking back market share by attracting thousands of students to online programs at reduced tuition rates. One such institution is Lamar University, in Texas, which has seen its enrollment mushroom since working with Higher Ed Holdings to increase access to some of its programs.

Moreover, increases in federal financial aid and state scholarships have been unable to keep up with the incessant annual increases in tuition at traditional four-year colleges. For example, Congress has raised the Pell Grant limits from $4,731 to $5,350 a year by scrapping the federal loan programs of bank subsidies thought to be excessive. But $5,350 pays for only about four to six weeks at a high-priced private college.

A few prominent universities, including Harvard and Princeton, have made commitments to reduce or eliminate loans for those students from families earning less than $75,000 or even $100,000 a year. But the hundreds of less-endowed colleges cannot reduce the price of education in that fashion. It is those colleges that are most at risk.

What can they do to keep the bubble from bursting? They can look for more efficiency and other sources of tuition.

Two former college presidents, Charles Karelis of Colgate University and Stephen J. Trachtenberg of George Washington University, recently argued for the year-round university, noting that the two-semester format now in vogue places students in classrooms barely 60 percent of the year, or 30 weeks out of 52. They propose a 15-percent increase in productivity without adding buildings if students agree to study one summer and spend one semester abroad or in another site, like Washington or New York. Such a model may command attention if more education is offered without more tuition.

Brigham Young University-Idaho charges only $3,000 in tuition a year, and $6,000 for room and board. Classes are held for three semesters, each 14 weeks, for 42 weeks a year. Faculty members teach three full semesters, which has helped to increase capacity from 25,000 students over two semesters to close to 38,000 over three, with everyone taking one month (August) off. The president, Kim B. Clark, is a former dean of the Harvard Business School and an authority on using technology to achieve efficiencies. By 2012 the university also plans to increase its online offerings to 20 percent of all courses, with 120 online courses that students can take to enrich or accelerate degree completion.
Colleges can also make productivity gains by using technology and re-engineering courses. For the past 10 years, the National Center for Academic Transformation, supported by the Pew Charitable Trusts, has helped major universities use technology to cut instructional costs by an average of 40 percent while reducing the number of large course sections, graduate teaching assistants, and faculty time on correcting quizzes. Grades have increased, and fewer students have dropped out. Meanwhile, students have a choice of learning styles and ways to get help online from either fellow students or faculty members. That "transformation" requires a commitment to break away from the medieval guild tradition of one faculty member controlling all forms of communication, and to give serious attention to helping students think and solve problems in new formats.

The economist Richard Vedder of Ohio University, a member of the federal Spellings Commission, offers more radical solutions. He urges that university presidents' salaries include incentives to contain and reduce costs, to make "affordability" a goal. In addition, he proposes that state policy makers conduct cost-benefit studies to see what the universities that receive state support are actually accomplishing.

Fortunately, some other forces are at work that might help save higher education. The federal government recently raised significantly the amount of money that returning veterans might claim to pursue higher-education degrees, so it reaches at least the level of tuition and fees at many public universities.

In addition, the rest of the world respects American higher education, and whether studying at a college here or an American-based one abroad, the families of international students usually pay in full. The number of international students could rise from 600,000 to a million a year if visa reviews are expedited; the crisis of September 11, 2001, temporarily reduced the upward trajectory of overseas enrollments in American colleges. Accrediting agencies could also develop standards to expedite the exporting of American education into the international market.

But colleges cannot, and should not, rely on those trends. Although questions about the mounting prices of colleges have been raised for more than 30 years and just a few private colleges have closed, the stakes and volume of the warnings are mounting. Only during a critical moment in economic history can one warn of bubbles and suggest that the day of reckoning for higher education is, in fact, drawing near.

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