THE END OF THE MEDIOCRE PRIVATE COLLEGE

On May 18, 2012, the President of Chester College in Chester, New Hampshire announced that the small arts-oriented college was going to close for good at the end of the semester. Last-ditch fundraising efforts and finger-pointing at the school's administration were natural parts of the school's final days as the reality of poor finances and low enrollment finally took its toll. Nearby colleges of similar educational types graciously (but eagerly) welcomed Chester's student transfers, generously offering "the same tuition, board and fees" as the closing college.

The title of this article is not intended to cast aspersions toward the academic quality of Chester. It would take more than some Monday-morning quarterbacking to properly assess all the factors that led to the closing. However, in most cases (and it appears to be the case with Chester College), the biggest obstacle to overcome is financial. Being cash-poor and deep in debt is harder to cure than creating an academic revival.

The lack of both short-term and long-term financial sustainability has become pervasive in the ranks of small colleges. The "mediocrity" related to poor finances, once achieved, is very difficult to overcome. In many other situations, the mediocrity is truly academic and that aspect puts those schools at a competitive disadvantage related to trends that are now coming into play. Either or both of these factors threaten the existence of hundreds of private colleges across the U.S. But since the onset of the economic slowdown four years ago, the weak signals that were emerging have become full-blown trends that will soon have huge ramifications for higher education in the U.S.

How We Got Here

America found its growth hormone in the military mobilization and the incredible educational success of the G.I. Bill of Rights. Young men (mostly) who, prior to the war, would have had little interest or ability in going to college now were given the opportunity. The ranks of colleges and college graduates swelled with millions of new students. America's collective experience had gone through the Great Depression, World War II, and now was entering a third mutual realm that it had never done before.

Throughout the heyday of the industrial growth from the end of World War II until about year 2000, young people were admonished to "complete" their education by getting the highest level piece of sheepskin commensurate with their standing in life or their ultimate educational goal. And somehow it all seemed to work. Companies could rely on the abilities of the "sharp high school grad" to fulfill most industrial functions. Those who needed technical training to perform a task went to the local technical institute or community college. For those who wanted to climb the ladder of success later, they went to "night school." As the United States was in an ascending mode of perceived eternal growth, there seemed to be plenty of room for any college graduate to enter the workforce – the type of degree of little consequence – and do no worse than become a management trainee or sales trainee as the economy boomed. The world made sense. All was well.

The source of this educational quest for the Holy Grail is the decades-old institutionalized thinking that reinforced that it is a college degree that affords a great future and living "the good life." Potential workers have been told for generations: "You must get a college degree to succeed". So that is what they have done. The college degree was the universally accepted clear path to success.

The Trends Were Happening but No One Connected the Dots

Around the year 2000, a confluence of several trends came together to give us the situation we have today.

The first is generalized and somewhat anecdotal. There is a common refrain among many employers that they are frustrated with the college graduates they hire not having the exact pool of knowledge to contribute immediately. The quality of the applicants just doesn't seem to measure up to their existing personnel – or at least not up to the companies' expectations. The "quality" of the education must not be as good; the colleges must be out of touch with the marketplace.

The second trend that has emerged is the proliferation of online college education. Phoenix University, DeVry, Capella University and others have taken advantage of the convenience of online learning and, again, the institutionalized thinking that a college degree - any college degree - is the ticket to prosperity.

However, the recent extension of this development has a new component that may threaten the business model of the for-profit online university as well. MIT, Stanford, Harvard and other highly regarded universities are offering standard courses online for free - but without the course credit. Top-flight U.S. colleges and universities, now numbering over 40, are participating in one of at least five different free (or nearly free) online non course credit educational systems: Khan Academy, Udacity, edX (MITX), Coursera, and TED ED, collectively known as Massively Open Online Courses (MOOCs) . The onset of the MOOCs shows no sign of slowing down- in fact it is escalating at an astounding pace. Anecdotally, it appears that most colleges and universities don't know what to do with new creature and only the most secure – both in their academic standing and financially – are participating to date. The development of the free Massive Open Online Courses democratizes knowledge to such an extent that it is only eclipsed by the advent of free public education over a century ago.

The third trend is the rapidly escalating cost of a college education. By now you've surely seen the hyper-inflation related to the costs of a college education – particularly private education. These increases in price for this brand of education way overshot the paltry growth in incomes of most American families. What once was just "expensive" became exorbitant.   But very few seemed to flinch at the cost; private college and university enrollment kept climbing. The concept that we accepted as fact in the great growth era after World War II – that growth is eternal - made the cost of this brand of education worth it.

The fourth trend is a continuation of the third. Those higher priced educations are truly higher priced. To accommodate this part of the American dream for their kids – that of a college degree - American families (and to a greater degree the students themselves) have taken on incredible levels of debt to fund the educations. This debt is so massive that U. S. student debt now exceeds all U. S. auto loans and exceeds all credit card debt in the U.S. – with twice the level of delinquency. The Federal Reserve Bank of New York (FRBNY) released a report in March 2012 that stated that 30% of the 37 million Americans who have student debt are behind at least 30 days on their payments and that 70% of the debtors are 30 years old or older; 17% are older than 50. According to a September 2012 article in the New York Times: “The amount of defaulted loans – $76 billion – is greater than the yearly tuition bill of all students at public two- and four-year colleges and universities, according to a survey of state education officials."

Connection with the Workplace: Degree or Knowledge?

All it took to unravel the great education growth machine was an economic slowdown – a bad one at that – referred to as the “Great Recession.” The four trends now hit a fifth: with this debt-ridden expensive education, the graduate can’t find a job. Oh, that is unless the career path chosen is not in the ordinary career guide at most colleges. The August 2012 Socionomist cited a Bloomberg.com article that highlighted Census Bureau figures showing that “the number of waiters and waitresses ages 18 – 30 with college degrees rose 81% from 2000 2010. The number of janitors with college degrees jumped 87%."

Meeting the needs of the workplace - whether for companies still operating in the jobs paradigm, those providing contract work, or for entrepreneurial efforts - will still be a central issue. **But changes in the workplace, where companies no longer really want employees (as evidenced by position cuts at many of America's largest companies in the name of "increased profitability"), have been more abrupt than those in the higher educational system. The workplace cuts - both those caused by a depressed economy and those undertaken as**

restructuring efficiency - have happened faster than any educational workplace preparation or retraining could ever do. And that is a large part of the problem.

So potential employers, who are averse to hiring in the first place - and have a chronic complaint about the knowledge base (quality of education?) and workplace preparedness of recent college graduates - are simply seeking solutions to their true hiring needs. "If colleges and universities can't give me what I need (because they aren't)", they might ask, "is there another route to finding qualified contributors to my business?"

In fact, there very well may be. And some are already doing it. And it's not what colleges and universities want to hear. Some early adopter employers are looking more closely (and becoming more accepting - especially in the social media development) at bringing knowledgeable workers - who are not necessarily credentialed graduates - into their workplace. At this point, they will be perceived to be the Bill Gates, Steve Jobs types - the brilliant non-traditional tech/creative/driven savant. Apple even allowed application developers as young as thirteen years old into its prestigious Worldwide Developer Conference. Clearly, a college degree is no longer an absolute necessity to make intellectual contributions to the economy.

The sources of education utilized by this new breed of applicant will likely be a combination of many traditional experiences: formal postsecondary education, internships, summer jobs, and life experiences (ex.: armed services, Peace Corps, AmeriCorps). But increasingly, the massive open online courses (MOOC) will be the route they will take. When Sebastian Thrun, formally a professor at Stanford University, offered his first online course in artificial intelligence, 160,000 people across the world signed up for the free course. The students knew they were not getting Stanford course credit; they were taking the course to gain the knowledge. And it was free.

Assessing the level of knowledge in a subject by an employer of an applicant whose knowledge base has been largely built upon taking MOOCs will be a challenge. But this is no different than the current status where companies aren't able to properly assess the abilities of college graduates to contribute immediately. The fact that some companies are already migrating to testing for knowledge – regardless of any claim of educational prowess or degree - is a huge development. This is the first signal that it will be knowledge - not necessarily a degree - that companies will be pursuing. Successful connection between course completion and assessment of course content application to the workplace will go through some growing pains in this process. Mozilla Badges and *smarterer* are two current assessing systems: Mozilla, the more standard and *smarterer*, more personalized to the company.

Late adopters (government and higher education, in particular) will still insist on the degree credential. (Government being the last to respond to any significant trend and higher education is in the business of *granting degrees*!) The same is likely to hold true in older mainline, hierarchical companies and even more so in those businesses located in less connected areas of the U.S. because they tend to be later in becoming aware of most new trends of all types. This disparity in time frame of adoption will cause major confusion in the education and business marketplaces.

That timing of the migration of the private sector's acceptance of online, non-degree education will happen in an irregular fashion, starting with higher technology, social media, and communication services, find some acceptance in the next ten years in manufacturing and sales dominated organizations and will end some 10-20 years later with government and education. Of particular interest will be the timing of acceptance of non-degree status among professional organizations that have a large say in professional membership: the ABA and AMA for lawyers and doctors, the NCARB for architecture, the ABET for engineering, the CPA for accountants. Despite evidence of competence (and even excellence), at what point would you accept and pay for legal advice from a legal “layman”? Or accept and pay for architectural plans from a “draftsman”? (And what new words must we come up with to designate all of these work roles (compared with the existing meaning) during the transition period?) What would be the process for their work becoming “insured”, “bonded”, or even “legal”?

Educational Choices

As the knowledge base (versus degree only) concept catches on with employers and because the debt being taken on (especially for private college educations) seems even more insurmountable in a deflating wage market, high school graduates will be creating a slightly different priority list for the next step. Not quite sure about this knowledge versus education thing, young high school graduates will still follow the more traditional path by seeking some sort of degree. (Old habits and traditions die hard.) Worried about potential debt load, they will (more heavily than ever) apply first to the cheaper, state-supported institutions.

Imagine the dilemma faced by a recent high school graduate. She has been indoctrinated with a base understanding that becoming more educated will likely provide opportunities for her to have a better life. No one is disputing that. Like most students, she will likely not qualify academically for admission to the elite schools in America. But with her 3.5 GPA, two passing scores on AP exams and 1120 on the (old) SAP – plus a healthy number of extracurricular activities – she is a viable candidate for over 70% of college admission slots in America. Her family finances have eroded in the past four years; her college fund has been raided to make ends meet. She has been accepted to a state-supported university two hours away and likewise to the nice, small, but expensive, local college that is the pride of the community. There is a community college is in her home with course offerings that interest her and would allow for transferability. She hangs out with some friends who have had some success writing apps – they regard themselves as cool hackers who are on to something really great. What knowledge they don't nurture organically among themselves they can pick up on the internet. Most are serious about taking online courses to engage with outside thinking. The group has invited her to join their merry band. They even have a friend who will give her a job waiting tables to make ends meet as they are doing.

What does she do?

The decision twenty years ago, versus ten years ago, versus five years ago versus the present may all be different. And whatever generation of thinking is dominant at the time of decision may direct her path.

Since it is the college education that is creating the debt, perhaps it is worth looking at the breadth of college education options. Kiplinger's Personal Finance's 2012 Top 100 "Best Values in Public Colleges" includes colleges and universities from over 35 states on its list. Every state represented on that list (and undoubtedly the same holds true for states with colleges outside the Top 100) has at least one public university where the school admits over 50% of all applicants. That implies that a reasonably good student could qualify for the less expensive in-state tuition at at least one college in his or her home state. As a proud alumnus of the University of North Carolina at Chapel Hill (ranked #1 for best value in the U.S.), I may be blind to the factors that influence the choices of college enrollees who elect to go to private colleges and pay as much as four times as much for their educations. I am missing the point of whatever perceived advantage they are finding with those decisions. But my best assessment is that those decisions moving forward will largely be made in the direction of the prestigious, the well-connected, the unique, and the close geographic proximity - not the mediocre.

With the $30,000-$60,000 total college annual cost still staring these applicants in the face, even for schools without an outstanding or even a good academic standing, more and more 18-year-olds will seek the less expensive path and experiment with the benefits of starting a higher education process in the community college system. These shifts in the educational process (toward state-supported universities and community colleges) will have several downstream effects. The first is that the state-supported colleges and universities will have a much higher number of applicants. At some point the stress of growth maxes out what each campus can take – even stressing the capacity of online and virtual courses within a mainstream curriculum. With a higher number of applicants (many of whom represent those deciding not to pursue a college education at a private school), public colleges and universities will undoubtedly have a higher level of GPA and SAT score cutoff. This will make the schools simply harder to get into compared to the past. In addition, schools such as N.C State University have announced they are slowing the growth of undergraduate enrollment to focus more on post-graduate offerings. The old C-average/800 SAT applicant may not find that any of the less expensive state-supported institutions have room for them any more. And if the four year institutions aren't available, the next best solution is increasingly becoming the community college – even for those students that in the past would have readily gone to a four-year state-supported college.

This concept is being facilitated by state legislatures that are promoting ease of entry into higher education by allowing credits at community colleges to count towards four-year degrees at the state-supported four-year institutions upon transfer. Though the possibility that such a move may cheapen the value of the degree from a four-year school (which needs to be monitored diligently), the move to starting higher education at the community college level lowers both the cost/debt risk and provides more educational flexibility.

This situation is already starting to play out – and having its own challenges. The Los Angeles Times reported in October 2012 that the nation's largest community college system, California, is having huge student capacity problems. Part of the issue is funding, where the state has cut nearly a third of its financial support for the community college system in the last five years. An equal issue is the heavy demand for student enrollment and course offerings among the 2.4 million students in the system. Students are finding they can only get into one or two courses per semester even though they're trying to go full-time. According to the Times: "Without enough money, course offerings have dropped almost a quarter since 2008. In a survey, 78 of the system's 112 colleges reported that more than 472,300 students are on waiting lists for classes this fall semester – an average of about 7,150 a campus."

The heavy demand for community college courses is a function of a confluence of several factors coming together: a retraining opportunity for many who have lost their jobs, a lack of job opportunities in the first place (making any education the next best option), low cost in absolute terms, very low cost in comparative terms with public universities, and dramatically lower cost compared with private colleges.

That's why private colleges and universities – in the current economy, with high prices in a deflating wage market with little guarantee of a job after graduation, combined with a new work paradigm that is beginning to stress knowledge over a degree from any college or university – are at risk.

We're not talking about the elite private schools: the MITs, the Ivies, Stanfords, Vanderbilts, Dukes and Davidsons. Nor the schools with unique curricula, geographic identity, those with support from heavy endowments or sustained religious organization backing. We are talking about the private colleges with no discernible academic advantage over public schools - and perhaps little over community colleges - at two to four times the cost (the difference likely being college debt undertaken). This confluence of very high cost - funded through debt with uncertain academic/workplace benefits - with a cheaper (though no less uncertain) alternative may have a devastating effect on the small mediocre private college. That is the base case for why the mediocre private colleges will be tested moving forward.

There are very few scenarios that project a positive outcome for a $30,000 - $60,000 per year education at a school with limited curricula, few activities and little academic or social standing. This is especially true when the student body of the schools discussed in this essay is largely populated by C-average students with mediocre SAT scores. If higher education is in these students' futures, in this cost environment they will naturally migrate to state-supported universities or community colleges.

This will ring the death knell for scores if not hundreds of marginal colleges throughout the U.S. Some will be absorbed into state university systems or community colleges; some will merge with larger, healthier schools. Others will transition to become part of online universities as a first step before closing the campus in its existing state.

The impact of the closure of perhaps hundreds of college campuses will have a wide range of impacts. The first easy impact to assess is the unemployment of tens of thousands of college instructors, administrators and support personnel. Many will retire, but the majority will still need to produce income. Their reinsertion into the job market will provide a further glut of college and university personnel, providing more downward pressure on wages. Yet, the bigger question is: what do you do with an empty college campus? The hundred acres of classrooms and administration buildings and dormitories; perhaps a gymnasium, cafeteria, and auditorium - largely built to 1950s standards of efficiency? The schools that will be closing will probably not be in areas of high growth and many will quite likely be a duplication of other higher education opportunities in the area. They will likely reemerge as some sort of public school or community college campus, or as said before, merged into another entity. That is only because it is better to do something with this newfound asset rather than shutter it. In most cases, when the schools close it has quite a chilling effect on the community.

We all know of schools like Chester College. Perhaps it's because we attended a great little school. Maybe it's because people in our families made better lives for themselves by attending a small local private college. But keeping these thoughts to yourself, don't you privately wonder how at least one college you know of (or perhaps several small colleges) stays in existence? Why parents pay $30,000 to $60,000 per year for the uncertain outcome at a school carrying little prestige and even marginal academic standing? Or taking out student loans of this magnitude with the remotest of odds that the repayment doesn't horribly impact the household's economic future?

Bottom Line

Businesses are not getting what they expect; higher education is starting to feel the pinch by getting the blame for being out of touch with the marketplace; and the education consumer is wary of creating huge debt for an education that may not apply to the job/work marketplace. And now another educational paradigm (free, quality online education - the MOOCs) has emerged that may better serve the business community and threatens to undermine a huge part of the education sector.

This washout will be painful. Higher education will go through a metamorphosis in the next twenty years that leaves the landscape looking much different than it does today. And the first casualty will be the most expensive and least effective: the mediocre private college.