

This is what I see when I think about higher education in this country today:

Remember the housing meltdown ? Tough to forget isn't it. The formula for the housing boom and bust was simple. A lot of easy money being lent to buyers who couldn't afford the money they were borrowing. That money was then spent on homes with the expectation that the price of the home would go up and **it could easily be flipped** or refinanced at a profit. Who cares if you couldn't afford the loan. As long as prices kept on going up, everyone was happy. And prices kept on going up. And as long as pricing kept on going up real estate agents kept on selling homes and finding money for buyers.

Until the easy money stopped. When easy money stopped, buyers couldn't sell. They couldn't refinance. First sales slowed, then prices started falling and then the housing bubble burst. Housing prices crashed. We know the rest of the story. We are still mired in the consequences.

Can someone please explain to me how what is happening in higher education is any different ?

Its far too easy to borrow money for college. Did you know that there is more outstanding debt for student loans than there is for Auto Loans or Credit Card loans ? Thats right. The 37mm holders of student loans have more debt than the 175mm or so credit card owners in this country and more than the all of the debt on cars in this country. While the average student loan debt is about 23k. The median is close to \$12,500. And growing. Past 1 TRILLION DOLLARS.

We freak out about the Trillions of dollars in debt our country faces. What about the TRILLION DOLLARS plus in debt college kids are facing ?

The point of the numbers is that getting a student loan is easy. Too easy.

You know who knows that the money is easy better than anyone ? The schools that are taking that student loan money in tuition. Which is exactly why they have no problems raising costs for tuition each and every year.

Why wouldn't they act in the same manner as real estate agents acted during the housing bubble? Raise prices and easy money will be there to pay your price. Good business, right ? Until its not.

The President has introduced programs that try to reward schools that don't raise tuition and costs. They won't work. Right now there is a never ending supply of buyers. Students who can't get jobs or who think that by going to college they enhance their chances to get a job. Its the collegiate equivalent of flipping houses. You borrow as much money as you can for the best school you can get into and afford and then you "flip" that education for the great job you are going to get when you graduate.

Except those great jobs aren't always there. I don't think any college kid took on tens of thousands of dollars in debt with the expectation they would get a job working for minimum wage against tips.

At some point potential students will realize that they can't flip their student loans for a job in 4 years. In fact they will realize that college may be the option for fun and entertainment, but not for education. Prices for traditional higher education will skyrocket so high over the next several years that potential students will start to make their way to non accredited institutions.

While colleges and universities are building new buildings for the english , social sciences and business schools, new high end, un-accredited , BRANDED schools are popping up that will offer better educations for far, far less and create better job opportunities.

As an employer I want the best prepared and qualified employees. I could care less if the source of their education was accredited by a bunch of old men and women who think they know what is best for the world. I want people who can do the job. I want the best and brightest. Not a piece of paper.

The competition from new forms of education is starting to appear. Particularly in the tech world. Online and physical classrooms are popping up everywhere. They respond to needs in the market. They work with local businesses to tailor the education to corporate needs. In essence assuring those who excel that they will get a job. All for far far less money than traditional schools.

The number of people being prepared for the work world in these educational environments is exploding.

You would think traditional university educators would take notice. Beyond allowing some of their classes to be offered online, they haven't. They won't. Its the ultimate Innovators Dilemma. They don't believe they should change and they won't. Until its too late. Just as CEOs push for that one more penny per share in EPS, University Presidents care about nothing but getting their endowments and revenues up. If it means saddling an entire generation with obscene amounts of school debt, they could care less. This is how they get their long term contracts and raises.

It's just a matter of time until we see the same meltdown in traditional college education. Like the real estate industry, prices will rise until the market revolts. Then it will be too late. Students will stop taking out the loans traditional Universities expect them to. And when they do tuition will come down. And when prices come down Universities will have to cut costs beyond what they are able to. They will have so many legacy costs, from tenured professors to construction projects to research they will be saddled with legacy costs and debt in much the same way the newspaper industry was. Which will all lead to a de-levering and a de-stabilization of the University system as we know it.

And it can't happen fast enough.

IMHO, the biggest problem the economy has is the enormous student debt new college grads and those leaving college find themselves with. In the past leaving college meant getting a job and getting a used car and/or an apartment with some friends. Yes there was student debt, but it wasn't anywhere near your car payment. You could still afford the car and the apartment. Now its the exact opposite. Today, the minute you graduate college you face the challenge of debt against a college education whose value is immediately "underwater"

As a result spending habits have changed dramatically. Now when you leave school you move back home. You take public transportation or borrow your parents car. The only thing new you buy is the cheap work outfit you need. Savings ? Forgetaboutit. It's not happening. Your entire focus is on hitting your monthly nut for school debt , credit card and maybe a car or apartment. The crush of college debt has taken an entire generation of graduates, current and future out of the economy. Which is exactly why the economy hasn't grown and won't grow beyond microscopic growth rates we have seen so far.

So until we get the meltdown in college education, don't expect much improvement in the economy. Who gets elected won't make a dang bit of difference.

**Update:** Let me add some clarification here based on some of the comments. I include the Online For Profit Mills that live off of the government delivering student loans as part of traditional education. Phoenix, Strayer, etc, they are not the new generation of Branded Education I am referring to. They are a big part of creating the bubble. i should have gone into more depth here. I will save it for another post.

As far as the purpose of college, I am a huge believer that you go to college to learn how to learn. However, if that goal is subverted because traditional universities, public and private, charge so much to make that happen, I believe that system will collapse and there will be better alternatives created.

Online video classrooms with lively discussions dont need a traditional campus to teach kids how to learn. Discussion groups built around Khan Academy like classes dont require a traditional campus to teach kids how to learn. I've seen better discussions and interactions on twitter than in some of the traditional classrooms I have visited. The opportunities for online interactive video classrooms is going to grow quickly and will be far more cost effective than traditional universities.

Leave the for profit online schools that create more employment for debt collectors than their students out of the equation and we still have an enormous bubble in Higher Education that is having a horrible impact not just on the economic life of their students, but on the economy as a whole as well

The Higher Education Industry is very analogous to the Newspaper industry. By the time they realize they need to change their business model it will be too late. Higher Education's legacy infrastructure, employee costs /structures and debt costs will keep them from being able to re calibrate to a new generation of competitors.