This Is the Way the College 'Bubble' Ends

Not with a pop, but a hiss

Derek Thompson 10:04 AM ET

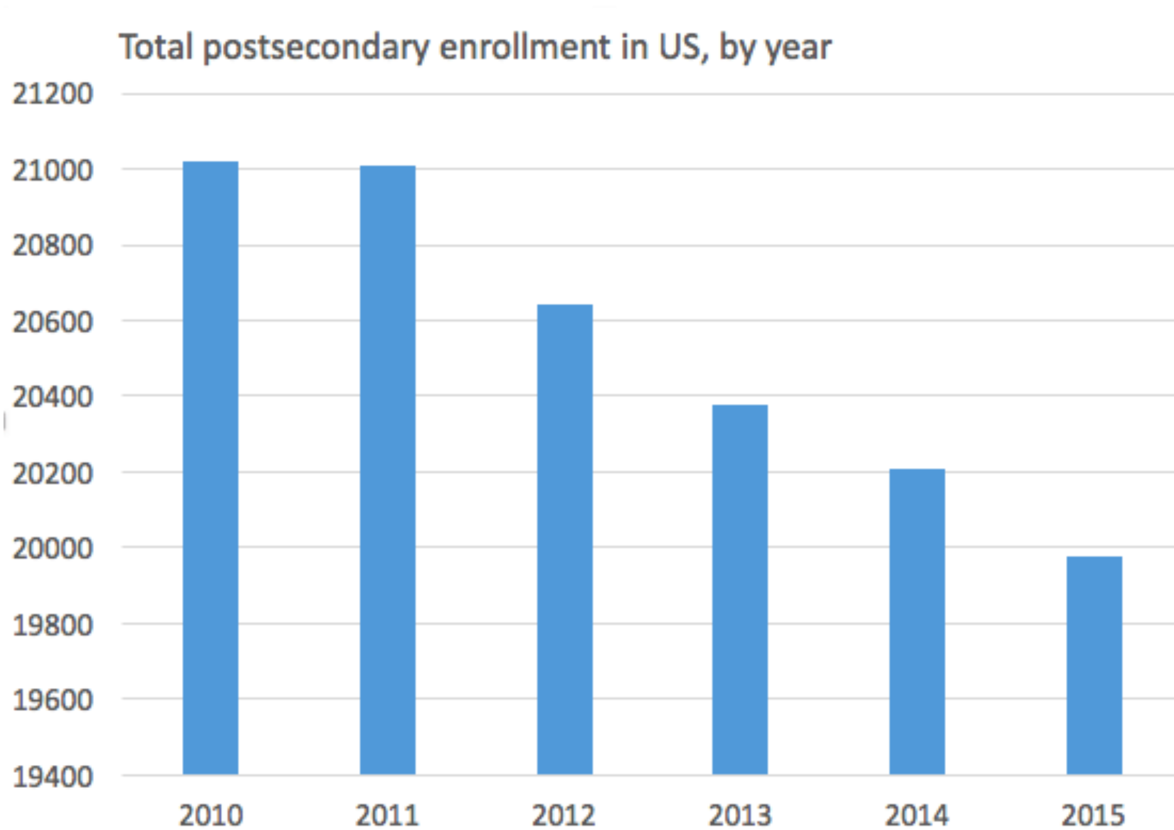
For the past few decades, the unstoppable increase in college tuition has been a fact of life, like death and taxes. The sticker price of American college increased nearly 400 percent in the last 30 years, while median household income growth was relatively flat. Student debt soared to more than $1 trillion, the result of loans to cover the difference.

Several people—with varying degrees of expertise in higher-ed economics—have predicted that it's all a bubble, destined to burst. Now after decades of expansion, just about every meaningful statistic—including the number of college students, the growth of tuition costs, and even the total number of colleges—is going down, or at least growing more slowly.

First, the annual growth rate of college tuition is at its lowest rate on record. Second, the annual growth rate of student debt is lower than any time in the last decade. Third, the number of college enrollees has declined for five consecutive years. Fourth, the college premium—the extra income one should expect from getting a bachelor's degree—is higher than it was in the 1990s, but it's stopped growing this century for young workers. Altogether, the numbers paint a clear picture: The higher-education market is not bursting, like a popped soap bubble; but it is leaking, like a pierced balloon.

What's going on? The explanation is a little bit of weak demand, a little bit of over-supply, a big crackdown on for-profit colleges, and, perhaps, a subtle shift in culture.

1. The college pipeline is drying up.

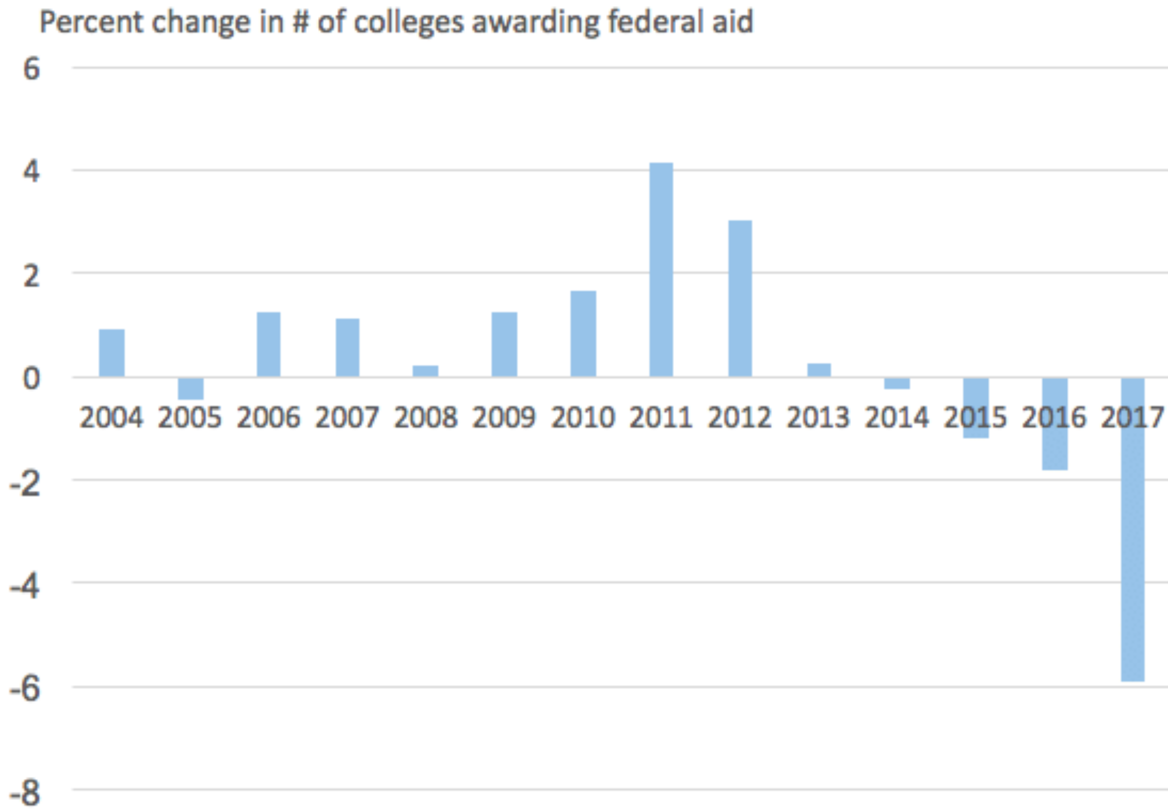


Education Department

The United States is running out of teenagers.

For two decades, college enrollment grew and grew, bolstered by the coming-of-age of the enormous Millennial generation. But today, the number of young people going to college is in decline. It's not that today's teenagers hate higher education; the *share* of recent high school graduates going on to college has barely budged. Instead, there are simply fewer recent high school grads overall, due to declining birth rates. More than half of colleges and universities say their number of students has declined.

2. There are too many colleges.



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In the last three decades, higher education has been one of the economy's most unstoppable growth sectors. In booms and busts alike, the number of two- and four-year colleges kept rising, increasing by more than 30 percent between 1990 and 2010, according to the Education Department.

But now, schools are closing. The number of colleges in the U.S. has fallen for four straight years, and the rate of decline is accelerating, as you can see in the graph above. (The graph measures institutions that give out federal aid, which is a useful proxy.) For decades, population growth after World War II fed the demand for new colleges. But with a relatively strong economy, combined with political and social pressure to restrain tuition growth, colleges are finding it hard to attract students at an ever-rising price point. Last year was the worst year for school closings this century.

What's more, with fewer teens going to school, colleges are losing their pricing power and offering discounts to fill the beds and lecture seats. Hundreds of thousands of adults returned to school during and immediately after the Great Recession, using the downtime to buff up on skills to serve them during the recovery. But now adults are working more and studying less. *The New York Times* reports that at some colleges—particularly small, private nonprofit schools—the discounts are "so deep that, while their sticker prices appear to be rising ahead of the inflation rate, the schools are actually seeing their net tuition revenue decline."

3. The bubble that's popping isn't American colleges, overall—it's for-profit colleges.

Enrollment at for-profit institutions quadrupled in the first decade of this century, to 1.7 million, at one point accounting for 10 percent of US college students. But they were targeted by education advocates and the Obama administration for their low graduation rates and high student debt and defaults. These schools, some of which ran downright scummy businesses to collect government aid without providing much of an education, often catered to adults trying to update their skills in a fallow economy. So in the last few years, they have faced a double-whammy: a healthy job market took away their student demand, and a federal-government crackdown took away their business.

The for-profit implosion has been as dramatic as its rise. Between the 2010 peak and 2015, enrollment at private for-profit colleges decreased by about 40 percent, or 600,000 annual students. (In the same period, enrollment at public colleges and universities only decreased by 4 percent.) Federal loans for undergraduates attending for-profit colleges have also declined by 40 percent. The business model of gobbling up federal money in exchange for delivering a worthless education is drying up. That's a positive development that is playing an outsized role in negative headlines about American higher ed. After all, research has shown that graduates of for-profit schools see no average benefit in the labor market.

What's the implication for the next generation of college students? It's possible that we're seeing a brief, perfect storm with three driving factors—a dearth of teenagers, a growing economy, and the quick implosion of for-profit colleges. These are all measurable forces. But it's also possible that something less quantifiable has changed—for example, that families have become savvier higher-ed shoppers, or that years of public outcry about tuition costs and student debt have encouraged more public universities to rein in their costs.

I'm most interested in how universities use these fallow years to experiment with technology and new ways of delivering education at a cheaper price. For years, colleges and universities were charmed beneficiaries of both demography, with climbing teenage populations, and economics, with a weak economy with growing needs for skilled workers. It's a truism in economics that most technological change in any industry takes place not during the boom times, but during the downturns, when firms have to be clever to survive. Let's see if American colleges are smart enough to adapt to the new normal.

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