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Sweet Briar announced plans to close in 2015, and although it has since re-launched, its fiscal stability is far from assured.

PRIVATE COLLEGES IN PERIL

FINANCIAL PRESSURES AND DECLINING ENROLLMENT MAY LEAD TO MORE CLOSURES

ENROLLMENT IS DWINDLING. Deficits are mounting. And more closures are looming: that's the prediction of many higher-education experts, who are concerned about the future of small private colleges in America.

Elite schools are not in trouble; they can count on deep applicant pools and practically limitless resources from their endowments and alumni networks. Public college systems, though not without their own fiscal challenges, are ultimately backed by the government's power to tax. But small mid-tier private schools tend to have modest endowments, and after decades of tuition hikes comparable to those of their elite peers, are now dangerously at risk of pricing themselves out of the market. Their problems will soon be compounded by demographic realities: the college-age population is expected to decline over the coming decades, leading to even tighter competition for students. The storm has yet to break in full, but a recent spate of closings and mergers may signal greater turbulence to come for the private nonprofit sector, whose 1,700 institutions enroll about 30 percent of all students attending four-year colleges.

The fiscal crisis of the small private college will play out in

by STEPHEN EIDE

different ways across the nation. States vary in both their demographic projections and the degree to which their higher-education systems rely on private schools. Informed observers agree that more closures are on the horizon, though they debate how truly "disruptive" the shakeout will be.

But the more important question is, what kind of higher-education system do we want? One that's composed mainly of elite schools for top students and public universities for everyone else? Or a system that offers a variety of choices, in both the public and private spheres, for all kinds of students?

Private colleges typically offer smaller classes, more personal attention, mentoring from faculty, and a tight-knit academic community. On a smaller campus, students can find ways to stand out—perhaps in student government, or maybe in the research lab of a faculty member who in a large university would rely on grad students. Students at private colleges also tend to finish their degrees more quickly—graduating within an average of four and a half years compared to six at public colleges.

Unlike a large public system, a small private college doesn't have to be all things to all people—but the features that make it unique can also constrain its market. Consider St. John's College, whose campuses in Annapolis, Maryland, and Santa Fe, New Mexico, offer a well-respected "Great Books" program that the school adopted in the early 1930s to save itself from fiscal collapse. For several years now, St. John's has been grappling with a structural deficit in the millions. In New York City, The King's College represents a noble effort at Christian liberal-arts education, but it has a negligible endowment, putting it only one or two bad years of enrollment away from distress. In Massachusetts, Assumption College and Gordon College are religiously affiliated schools that, unlike many of their peers, still take seriously the spiritual aspects of their mission. It is not safe to assume these schools will be around 15 to 20 years from now, at least in their current form. The same could be said of Bard College at Simon's Rock and Marlboro College in Vermont. Art and music schools tend to be very small; the Boston Conservatory, which merged with Berklee College of Music in 2016, is likely not the last of such institutions to succumb. Several historically black colleges—a long-struggling cohort—are small and private. One universal truth about these very different colleges? They are not for everyone, but they are exactly the right thing for some. In K–12 education, with the recent growth of charter schools and other choice initiatives, families in some locales now have a greater range of schooling options. And yet, in higher education, consumer choices are narrowing.

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The Nature of the Crisis

Industry publications such as *Inside Higher Ed* and the *Chronicle of Higher Education* seem to be reporting almost daily on the challenges facing private colleges. Sweet Briar, a women's college in Virginia, announced plans to close in 2015, despite an endowment valued at more than $80 million. Sweet Briar has since re-launched, but its fiscal stability is far from assured. Burlington College in Vermont, thrust into the limelight by a

Industry publications seem to be reporting almost daily on the challenges facing private colleges. The Boston Conservatory **(left)** *merged with Berklee College of Music in 2016, and tenured faculty were laid off last year at Mills College* **(right)** *in the Bay Area.*

PHOTOGRAPH / STEVE DUNWELL; ALAMY (L); JOHN LANDER; ALAMY loan scandal involving former president Jane Sanders, Bernie Sanders's wife, shut down in 2016. In addition to the Boston Conservatory merger, Massachusetts has seen other closures: in 2017, Wheelock, an education college, agreed to be absorbed into Boston University, resulting in layoffs for most Wheelock staff. This year, Mount Ida announced that it would be acquired by the University of Massachusetts, and long-struggling Atlantic Union College near Worcester closed. Elsewhere, tenured faculty were laid off last year at Mills College in the Bay Area and the College of New Rochelle in New York, and Colby-Sawyer in New Hampshire recently decided to cut five majors, including English.

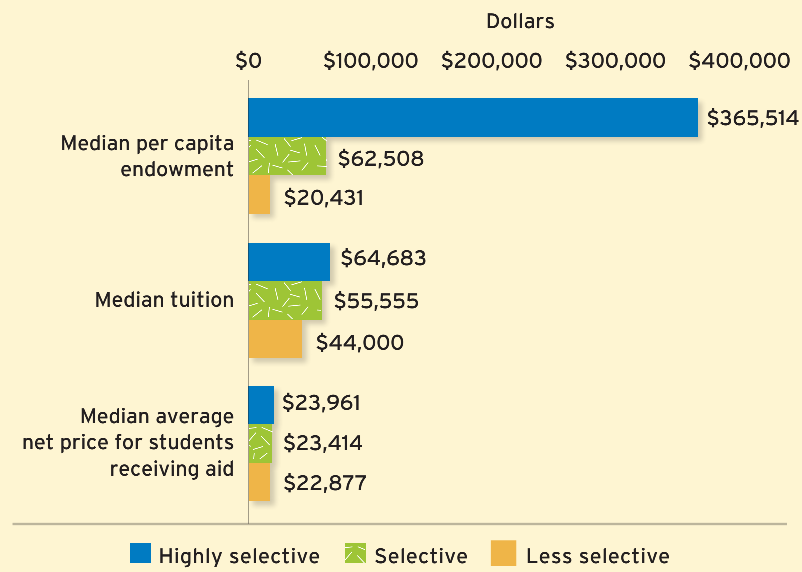
A common thread among these struggling or failing colleges is that they are small and less selective, admitting more than half of all applicants. Less-selective colleges generally command fewer financial resources than their more-selective peers (see Figure 1). Their price tags are lower, but not so low as to free them of the necessity to provide significant student aid in order to meet their enrollment targets. For students who receive aid—a significant cohort at all four-year colleges—the price they pay out of pocket at a less-selective school is roughly the same, at the median, as they would pay at an elite institution. A discounted tuition price of $23,000 a year for an Ivy League education may strike many parents and students as a deal, but they might question that amount at a less-prestigious institution.

Concerns about the small private college are rife among those who study the higher-education market. In a much-discussed 2015 report titled "Small College Closures Poised to Increase," Moody's Investors Service looked at the nonprofit and public four-year sectors as a whole, and projected that the number of closures would soon triple and the number of mergers would double. Moody's based its predictions on an analysis that showed that very large schools (those with 10,000 or more students) had been gaining market share for years and that smaller schools, which lack economies of scale, tend to have less capacity to support their operating costs through tuition revenue alone. Last year, the Council of Independent Colleges (CIC), a leading trade group, put out a report examining about 560 private schools' "composite financial index," a measure of budget and balance-sheet strength. While touting the private sector's overall fiscal resiliency, the report concluded that about one third of the schools fell short of the benchmark standard of financial health. Schools with enrollments below 1,000 exhibited generally weaker fiscal fundamentals than larger institutions.

Not everyone agrees about the best way to predict the likelihood of a school's closure: the U.S. Department of Education (ED) issues its official "financial responsibility composite score" rankings annually, awarding scores ranging from -1.0 to +3.0 and using them (and other factors) to determine an institution's eligibility for federal financial aid. The department has drawn criticism for assigning equal scores of fiscal health to extremely healthy schools like Yale (2.7 in ED's most recent round of scores)

The Financial Predicament of Less-Selective Private Colleges (Figure 1)

In general, less-selective private colleges have endowments that are dwarfed by those of their highly-selective peers. Tuition prices are lower at less-selective colleges, but students receiving aid pay roughly the same price as do students attending elite institutions.



NOTE: At highly-selective (25 percent or less admitted, n=56), selective (50 percent or less admitted, n=233), and less-selective (51 percent or more admitted, n=717) colleges, the median percentage of first-time students (mostly freshmen) receiving government and/or institutional grant aid is 54 percent, 89 percent, and 99 percent, respectively. The median average net price for students receiving aid is the price less all grant aid, including institutional aid and Pell Grants.

SOURCE: Author's calculations using data for the 950 four-year private colleges with comprehensive data for 2016 available in the Integrated Postsecondary Education Data System and more-obscure institutions like the Hypnosis Motivation Institute in Tarzana, California (also a 2.7).

But whatever one's precise measure of college fiscal distress may be, it is striking that this topic is so prominent in higher-education policy these days, considering that we're in the midst of the longest economic expansion since World War II. Under-resourced though they may often be, less-selective schools' endowments, in real terms, have added about $4 billion in value since the last market peak in 2007.

To be sure, the demise of the small private college has been predicted before, and the topic has been susceptible to hype. The influential Harvard Business School professor Clayton Christensen has predicted that half of all colleges and universities could face closure during the 2020s. The latest data from *Digest of Education Statistics,* however, do not indicate such a dire scenario. Annual closures of four-year nonprofit schools have remained in the single digits in recent years, or well within historical parameters.

But there are sound reasons to think that this time might be different, and that the rate of closures in the future will exceed the historical rate. First, the full impact of demographic decline has yet to set in. The Western Interstate Commission for Higher Education projects a rise in the number of graduating high-school seniors until the mid-2020s, when a steep drop will commence (see Figure 2a). These national numbers mask considerably worse news for the Northeast and Midwest regions than for the South and West (Figure 2b). If one takes the Great Recession era as the baseline, 10 states will have at least 20 percent fewer high-school graduates in the pipeline by 2030. College attendance rates, of course, are determined by more than just raw demographic numbers. For instance, a middle-class child in suburban Connecticut, both of whose parents have master's degrees, is far more likely to attend a four-year college than a member of a low-income immigrant family in Arizona. Still, Nathan D. Grawe, in his 2018 book *Demographics and the Demand for Higher Education,* weighs many factors and concludes that "demographics really is destiny": raw population numbers are what matter most in predicting future demand for postsecondary education.

Furthermore, it's the regions that are facing the toughest demographic projections that also have the highest saturation of private colleges. As noted above, the Boston area has seen several recent closures and mergers. More than two thirds of the four-year college enrollment in Massachusetts is at private nonprofit institutions, one of the highest rates in the nation. By contrast, in 20 states, concentrated mainly in the South and West, 20 percent or less of the four-year enrollment is at private nonprofit institutions. Richard Ekman, president of CIC, speaks of a "kind of a mismatch" between the availability of college options outside of the Southwest and Southeast and the awareness of such choices on the part of students from those regions, particularly those from "first generation" families. Indeed, a number of studies have documented the tendency of students nationwide to choose a school within an hour's drive of home. So, except for elite schools, which draw students from across the country and beyond, most four-year colleges operate within a regional market. Assuming that these self-imposed geographic constraints persist, and that the number of private schools in the Northeast and Midwest shrinks, students in these regions will eventually face the same limits on college choice as their peers in the South and West currently do.

In K–12 education, families in some locales now have a greater range of district and charter schools from which to choose. YET IN HIGHER EDUCATION, CONSUMER CHOICES ARE NARROWING.

Tuition Discounting

Another threat to small private schools lies in the practice of tuition discounting. For several decades, it has been common for colleges to provide most students with an institutional grant to partially offset the cost of their education. The "discount rate" represents the gap between the "comprehensive fee" (sticker price)—now beginning to top $70,000 at some schools—and what a student actually pays. Schools discount tuitions to make college affordable for families who can't pay the full cost; to craft student bodies in accord with institutional priorities such as diversity; to attract higher-quality students; and because they have little choice, given that "everyone" does it—elite, public, and mid-tier private schools alike.

In his 1994 book *Liberal Arts Colleges: Thriving, Surviving, or Endangered?,* David Breneman defended tuition discounting, pointing out that though discount rates had been rising, so, too, had "net tuition revenue"—total cash inflows, from students and their families, even after the aid outflows had been accounted for. Two decades later, though, there is growing concern that discount rates are reaching the point of diminishing returns. A 2017 analysis by researchers Ann Gansemer-Topf and Luke Behaunek looked at a cohort of more than 400 liberal-arts colleges and found that, over the preceding decade, the rate of growth of institutional aid flowing out had outpaced the rate of growth of net tuition revenue flowing in.

The problem is twofold, involving both the number of students who get a break on tuition and the magnitude of those discounts. The most recent survey by the National Association of College and University Business Officers found that 89 percent of freshmen receive some aid, and that the average grant covers about half their tuition (see Figure 3). In last year's survey, when the average discount rate was almost 2 percentage points lower, 40 percent of college business officers surveyed said that they considered the discount rate for their institution to be "unsustainable or sustainable in only the short term."

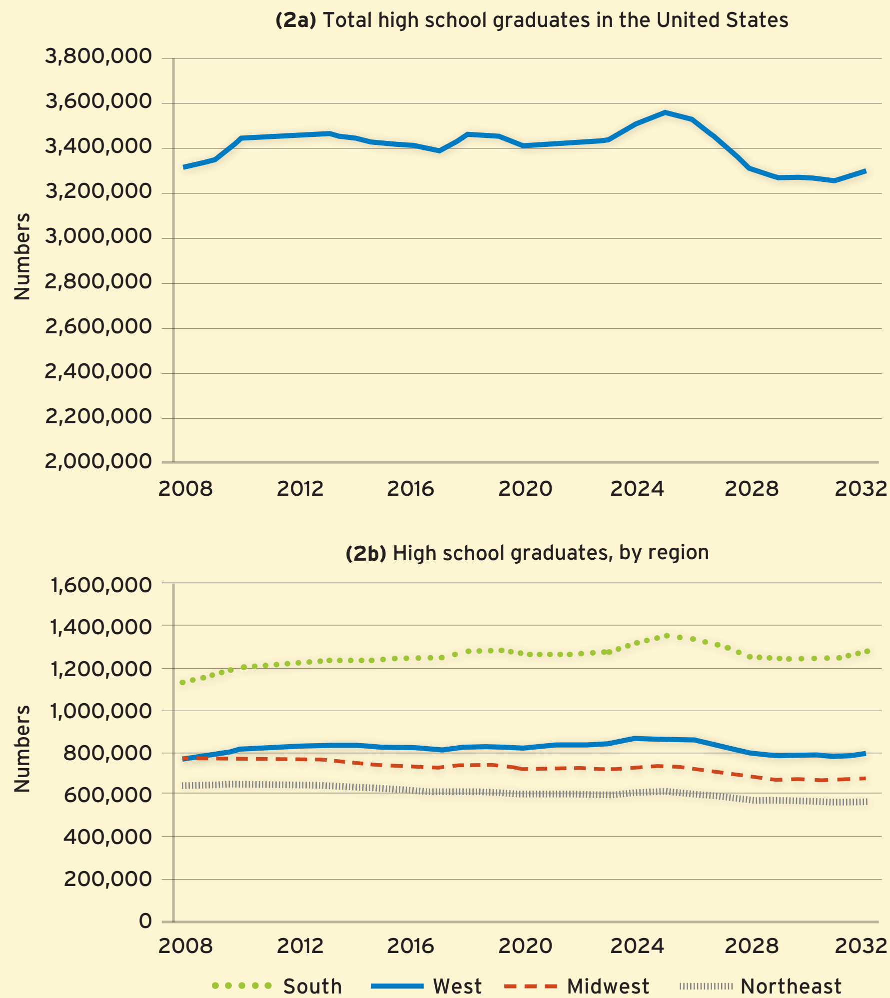
Competition from State Schools

Another factor exerting pressure on private colleges is increased competition from public institutions. Over the last decade, state government budgets have been squeezed by a combination of low rates of revenue growth and the rapidly escalating costs of Medicaid and public-employee pension and health-care benefits (see "Higher Ed, Lower Spending," *features,* Summer 2018). The resulting "crowd-out" effect has constrained the funds available for states' discretionary spending in other areas, such as higher education. The State Higher Education Executive Officers Association documents that aid levels nationwide have not recovered since the Great Recession, and in fact have not truly recovered from the prior recession of the early 2000s. In the world of public finance, no one expects states to succeed in bending the cost curve on Medicaid or pensions anytime soon. Accordingly, many states across the nation are looking at ways to somehow consolidate or restructure their higher-education systems.

But the budget struggles of state schools have not translated into an unqualified boon for private schools, since public systems have responded by stepping up their student recruitment efforts, especially targeting out-of-state students who can pay the full freight. The University of Maine, whose host state faces some of the harshest demographic headwinds in the nation, has posted promotional billboards along highways in several Northeast states. Public universities across the nation also compete with private colleges, both in and out of state, by creating "honors" colleges—smaller, more-selective colleges within the larger system. About 100 institutions now offer such programs,

Projected Decline in High School Graduates
(Figure 2)

The Western Interstate Commission for Higher Education projects the number of graduating high school seniors to rise modestly until the mid-2020s, when the number will start to fall. The decline is already underway in the Northeast and the Midwest, where concentrations of private colleges are highest.



NOTE: Data presented by calendar year in which the school year ends. Data include students from public and private secondary schools.

SOURCE: Western Interstate Commission for Higher Education according to *U.S. News & World Report.*

As rare as private school closures are, public school closures are even rarer. Data from the National Center for Education Statistics show that, over the last quarter century, only four four-year public schools have shuttered, compared to 124 four-year private nonprofit closures. And public college is still a relative bargain: even after crowd-out-induced aid reductions at state schools, the national average for the net price (tuition and fees less aid) at a four-year private college is roughly twice that of what in-state students pay at a four-year public institution, according to the Department of Education's most recent "Condition of Education" report.

A small private school with a structural deficit of a few million dollars may need to bolster its recruitment efforts, but it probably can't afford to devote even a few hundred thousand dollars to that end. Many parents may view a small liberal-arts college with a high price tag as a risky proposition, and so, in order to make themselves seem like a safer and more attractive choice, private schools must dole out more aid.

Moody's has cited large schools' "deeper set of academic programs" as a factor in their recent success at gaining market share from smaller schools, and some small private schools have been forced to pare back their offerings as part of an effort to stabilize their finances. Large state schools, with their many and varied courses of study, can always suggest to parents that if dance, film, or philosophy doesn't work out, their sons and daughters can always fall back on communications or business.

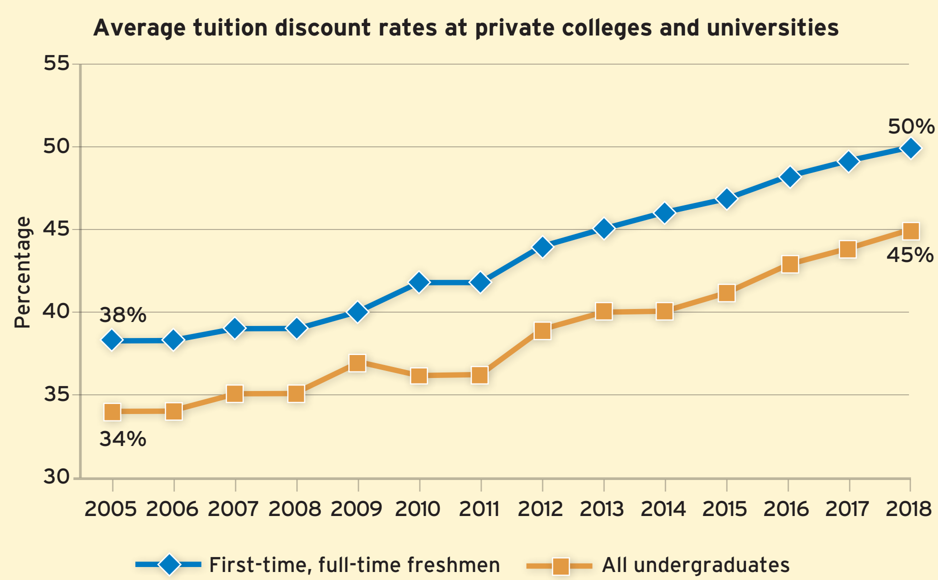
In theory, the closure of some small private colleges might be good for those that survive, since they could pick up more market share. But closures might actually work against the remaining institutions, if *small* becomes associated with *risk* or *failure* in the popular imagination. A school that's already struggling to maintain enrollment and persuade donors that it deserves their support could be further harmed by reports casting doubt on the viability of peer institutions.

The Free Tuition Movement

The emerging free-tuition movement could further strengthen the hand of public institutions at the expense of the private sector. Bernie Sanders made free tuition a progressive cause during his presidential campaign, though programs offering two years of free community college exist in red and blue states alike. In 2017, New York governor Andrew Cuomo hailed the state's new "Excelsior" program as the nation's first to offer tuition-free education for middle-class students at four-year state schools (low-income New Yorkers already paid no tuition to State University of New York and City University of New York schools). But such a program, even if well intentioned, could hurt private colleges. A November 2017 report by the Albany-based Commission on Independent Colleges and Universities in New York found that 30 of its member colleges that enrolled mostly New Yorkers had experienced enrollment drops since Excelsior launched. *New York Times* columnist David Brooks lamented: "Suddenly the state's 150 private colleges have to compete with 'free.' Many of these schools are already struggling to survive. If upper-middle-class students are drawn away to public colleges,

Climbing Tuition Discount Rates (Figure 3)

Nearly 90 percent of freshmen attending a private college now receive financial aid, and the average grant covers about half their tuition, up from 38 percent in 2005.



Note: Data presented by calendar year in which the school year ends. Data for 2018 are preliminary estimates. The tuition discount rate is defined as institutional grant dollars as a percentage of gross tuition and fee revenue.

SOURCE: National Association of College and University Business Officers private ones may close. That hurts the state's educational diversity, it destroys jobs, and it hurts the state."

During heavy manufacturing's decline throughout the second half of the 20th century, higher education expanded and in so doing helped prop up many post-industrial economies in upstate New York and elsewhere in the Northeast and Midwest. The closure of a small, less-selective college may be of limited significance for the nation as a whole, but a loss of hundreds or more well-paying jobs could be profoundly disruptive to the Rust Belt community where that college is located.

Is College Still Worth It?

The rapid escalation in the cost of college has prompted some, such as Glenn Reynolds of the University of Tennessee College of Law, to assert that we are in the midst of a higher-education "bubble"—that costs have been bid up far beyond the underlying value. In principle, the dwindling numbers of high school seniors could be offset if students started to attend four-year colleges at higher rates. Indeed, that is apparently how colleges overcame the demographic decline that 1970s-era researchers were predicting would wreak havoc on them. Instead, enrollment grew during the 1980s and '90s, when the economy experienced sharp rises in the demand for skilled labor and in the "wage premium" of a bachelor's degree over a high school diploma. But by the same token, the economist Richard Vedder sees a connection between a recent slight decline in total college enrollment and a stagnation in that same wage premium. If he's right, that's discouraging news for schools now dealing with enrollment woes, because the attendance rate is not going to rise unless college seems even more worthwhile in the future than it does right now. Student debt currently stands at $1.4 trillion.

Many four-year private schools pride themselves on their liberal-arts curricula, but over the years the integrity of the liberal arts has been compromised by the twin influences of "vocationalization" and politicization. The former may be seen in schools where business and finance rank among the most-popular majors but which describe themselves institutionally in terms such as "rooted in the liberal arts." Vocationalization is both an effect of tuition inflation and a cause, insofar as colleges have long held out the promise of bright job prospects for graduates to justify their price hikes.

Politicization is behind the many free-speech controversies on campuses these days. The academic environment, supposedly intended to open minds and expose students to a rich spectrum of ideas and thought, is now overwhelmingly dominated by faculty with progressive views. In 2016, Samuel Abrams of Sarah Lawrence College analyzed 25 years of data from the Higher Education Research Institute and found that in the South and Great Plains states, liberal professors outnumbered conservatives 3 to 1. On the West Coast, the ratio was 6 to 1, and in New England, an astonishing 28 to 1. To a frustrating degree, conformity with prevailing opinion matters far more, in terms of who gets heard in academia, than independence of mind or even scholarly credentials. Social scientist Charles Murray and the law professor Josh Blackman are both distinguished conservative intellectuals, and yet protesters thwarted their recent attempts to speak on college campuses, whereas, every day, countless lectures and panels featuring far less impressive liberal speakers take place without incident.

Both of these trends, vocationalization and politicization, threaten to weaken the value of a liberal arts education, and it is interesting to consider the relationship between them. Peter Wood, president of the National Association of Scholars, speaks of an "implicit bargain" that the "academic left" has made with mainstream America: "We will control the campuses, but we'll guarantee those kids who come here seeking to become accountants or investment bankers or engineers will get the credentials they need to move on with their lives." Developing a strategy to save a school from fiscal ruin will require differentiating it from its competitors, but that's easier said than done, since college leaders are typically deeply reluctant to break with academia's vocationalist and political consensuses.

> The emerging free-tuition movement could further strengthen the hand of public institutions AT THE EXPENSE OF THE PRIVATE SECTOR.

As noted earlier, this is not the first time that pundits have predicted doom for the American private college, and the bears have been wrong before. But, taking a still longer view, perhaps the historical record is more troubling for private colleges. Until the 19th century, private nonprofit institutions dominated the higher-education landscape. However, over time, their share of all four-year enrollment has gradually declined and now stands at about 30 percent. That is unlikely to reach zero any time soon, owing to the fiscal impregnability of the Ivies and near Ivies. But in certain areas of the country, the public sector looks impeccably poised to pursue a near monopolization of higher education. Such a scenario would hardly provide incentives to keep costs down. And for legions of college students in these regions, diversity of choice would be greatly diminished.

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