

Free Market Can Deliver Free College

By Daniel Pianko

Wall Street Journal, Sept. 21, 2020

The Covid-19 pandemic forced colleges to shift to online learning, often with disastrous results. Students are no fools and many of them are suing for a discount. They have realized what higher education is loath to admit: Instruction is not what they, their parents and the American taxpayer are paying full price for.

The most common discount on offer appears to be a 10% tuition reduction, but some students are pushing for far more. They claim that nonacademic activities, from school plays and concerts to networking and parties, represent a lot more than 10% of the price tag of college. Such discounts imply that students are still getting 90% of the value of higher education (about \$45,000 worth, on average) from their Zoom lectures, but much of the educational content has become widely available for free. Students and parents can't be faulted for suspecting that an online education should cost next to nothing.

At some institutions, it already does. Primarily online Southern New Hampshire University recently announced a free first year for incoming students in light of the pandemic. California-based National University—which offers an array of online classes—cut tuition by up to 25% for full-time students and says that new scholarships will make enrollment nearly free for Pell Grant-eligible students.

Can the pandemic finally bring the traditional college pricing model to its knees? Or will these examples remain outliers?

Insight into the future of higher education may come from an unlikely source: the brokerage industry. Like higher ed, stock trading is a highly regulated field with massive barriers to change. Recall the stereotypical stockbrokers of the 1980s: Tom Wolfe's "Masters of the Universe" or Merrill Lynch's "Thundering Herd." For years, the traditional brokerage industry was considered too difficult to replicate with technology. How could the internet replace a white-shoe adviser who not only took trade orders but also answered the phone, offered personal advice and took part in estate planning and other higher-order wealth-management tasks?

The mighty were felled quicker than expected. Over 30 years, technology reduced the cost of trading a stock from hundreds of dollars to virtually zero.

In 1988, a ragtag group working far from Wall Street began disrupting the brokerage business. It was led by Joe Ricketts, the larger-than-life founder of Ameritrade, who was the first to enable stock trading by touch-tone phone. Ameritrade introduced online stock trading only seven years later.

My first client as a junior investment banker out of college was Ameritrade, and much of my job involved carrying bags for Mr. Ricketts on roadshows. In 1998, when most other firms charged \$199 a trade, he revolutionized the brokerage industry by offering to trade unlimited shares for

\$8 a trade. After days on the road together, I finally worked up the courage to ask him: “How much lower than \$8 a trade can stock trading go?”

With a twinkle in his eye, Mr. Ricketts responded, “One day, Ameritrade will pay you to trade.”

I thought he had lost his business sense, if not his mind. Who gives away a product that everyone else is charging \$200 for?

Yet Mr. Ricketts saw the future: Today, almost no large brokerage firm is charging for stock trades. Firms make money from new revenue sources, like selling order flow to market makers. It’s not unlike the way Gmail is free for users, whose data then helps Google sell targeted advertising. In the first quarter of 2020, fintech unicorn Robinhood raked in \$100 million in order-flow sales alone. Ameritrade’s successor was sold last November for around \$26 billion.

Higher ed is where the brokerage business was in the late 1990s: poised for transformation. Even before the pandemic, momentum was building in the education market away from high-cost operators and toward low-cost ones. Southern New Hampshire University and Western Governors University, nonprofits that charge less than \$10,000 a year in tuition, have already become some of the largest and fastest-growing institutions in the country. They each serve more than 100,000 students by using online delivery and competency-based instruction to drive down costs dramatically without sacrificing quality.

These mega-universities will leverage technology to drive tuition revenue to zero over time. Some are already on the way, and the pandemic may accelerate the shift for many others. Rather than collecting tens of thousands of dollars from students up front, colleges might make money by forming partnerships with employers, by charging students a percentage of their postgraduation income, or via government-issued social-impact bonds tied to successful outcomes like graduation rates.

Mr. Ricketts’s lesson should be clear to every college president in America: Technological change affects industries in deep, novel ways that established players ignore at their own peril. New education models are already driving tuition down, but there’s still room for massive, structural price-driven disruption in this industry. In the wake of the pandemic, the winner will be the institution that takes the cost of online learning down to free.

Just as no one 30 years ago could have foreseen what would befall brokerage fees, few now can imagine what will befall colleges in a world without tuition revenue. But that world may be coming. If it is, the debate over free college will become an anachronism. Will you greet it with disbelief or a twinkle in your eye?