The Potential of MOOCs

Idea In Short

Read online education through disruption theory. Massive open online courses scale to hundreds of thousands of students, commoditize codified knowledge and democratize access globally. Top-tier universities will flourish on brand, while third and fourth-quartile institutions charging premium tuition for mediocre outcomes face creative destruction.

The Stakes for Higher Education

The tuition arithmetic frames everything that follows. Four years at a mid-tier private institution can consume a quarter million dollars in fees and forgone earnings, purchased increasingly on credit, while the same curriculum content sits online at marginal prices approaching zero. Institutions long priced the bundle, teaching plus credential plus network plus experience, as a single non-negotiable package. The platforms unbundled the teaching component first, which forces every university to answer what the remaining components are genuinely worth. Elite schools answer easily. The middle of the market does not, and that asymmetry drives the whole disruption story below.

Not New, Suddenly Different

Massive open online courses (MOOC) have existed in their modern form for roughly six years, marching steadily toward democratized education, with free online classes taught by some of the best professors in the business. The disruption thesis remains intact: MOOCs can completely upend higher education, especially for third and fourth-quartile institutions, which will struggle to charge 40,000 dollars per year for a mediocre education when free, admittedly different, learning opportunities sit online, including data science courses from elite research universities available to anyone with a connection.

The Momentum in Numbers

The startling statistics cluster into themes. Real money: Harvard and the Massachusetts

Institute of Technology invested 60 million dollars to launch edX, while Udacity raised over 21 million dollars in venture funding.1 Scale: 1.7 million students registered for Coursera classes in the early years, and one Udacity course ran a student-to-professor ratio of 150,000 to one. Quality: Udacity rejects 98 percent of professor applicants, and one early MIT online course posted a pass rate of just 5 percent, evidence of rigor rather than failure. Social proof and business model: 33 universities partnered with Coursera initially, sharing 6 to 15 percent of revenue. The trajectory since has only steepened, with Coursera reporting 82 million enrolled students across more than 4,400 courses from over 175 university partners by 2021. Scale, scale, scale.

A Century of Prologue

Distance learning itself is old. Students mailed homework to correspondence classes in the 1890s, Stanford broadcast twelve engineering courses by television in 1969 and accredited online universities operated for decades before MOOCs arrived. What changed is the economics of scale and quality together. Online education scales to classes of 100,000 to 200,000 concurrent students without degrading the lecture, a property no campus ever possessed. And it is mostly free, at least for now, with the for-profit platforms and the nonprofit edX all sitting on deep pockets and unexplored revenue streams: certificates, recruitment services, study guides and feeder arrangements with other institutions. Freemium models wait in the wings, and the free core has already changed expectations permanently.

Democratization and Its Opposite

Thomas Friedman argued the bullish case, imagining online courses uplifting people who lack access to first-class education anywhere.2 The vision matters because the American alternative had just melted down: two-thirds of students in parts of the for-profit online sector signed up for degrees they neither completed nor benefited from, financially unprepared for the burden. The average American student now carries roughly 30,000 dollars in education debt, the only major debt that bankruptcy does not discharge. Free, high-quality courses attack exactly that failure mode, decoupling learning from ruinous financing.

The Theory That Explains It

Two frameworks organize the phenomenon. First, Clayton Christensen's disruption theory applies cleanly: less for less, meaning lower-quality service at dramatically lower price, aimed at customers the incumbents overshot.3 Have traditional universities overspecified and overpriced their product relative to what many customers value, like chipmakers building ever-faster processors for buyers who wanted battery life? The question answers itself in the tuition invoices. Second, the codified-versus-tacit knowledge distinction from knowledge management research: codified knowledge records easily without losing meaning or value, which commoditizes it, while tacit knowledge demands personal interaction. Much of executive education, as Berkeley's Morten Hansen observed, is codified knowledge, and therefore first in line for commoditization. Seminars that transfer frameworks face cheap substitution. Experiences that transfer judgment resist longer.

What Learners and Employers Should Do

The disruption carries practical instructions for both sides of the labor market. Learners should treat the platforms as a parallel credential track, stacking certificates in analytical and technical skills that employers can verify, while reserving expensive degrees for the brand, network and tacit-knowledge components that free courses cannot replicate. The completion-rate caveat matters here, since free enrollment demands self-discipline that structured programs externally impose, and the honest question before enrolling is whether you finish things without deadlines. Employers should update screening accordingly, crediting demonstrated coursework and portfolios rather than filtering purely on institutional pedigree, because the signal value of a mid-tier degree is falling exactly as the report predicts. Corporate learning budgets should shift the codified half of their training to the platforms and spend the savings on the tacit half: coaching, apprenticeship and stretch assignments.

Winners, Losers and Schumpeter

The endgame sorts institutions by brand and value. Top-tier universities will be fine, with twenty-plus reasons ranging from research reputation to alumni networks, and the platforms actually help them flourish and extend their brands globally. The third and fourth quartile hurts, because the hard question lands on them: how much value in learning, job placement, network and skills do they deliver compared with a motivated student who keeps the hundreds of thousands in opportunity cost and educates herself online? Institutions without a good answer will shrink or close, and that outcome has a name from economics: creative destruction, the process Joseph Schumpeter described by which the new displaces the old precisely because customers choose it. Education is not exempt. It was merely late.

- 1edX
- 2Thomas Friedman
- 3Disruptive innovation

Summary

MOOCs marry scale, price and access in a classic less-for-less disruption. Codified knowledge commoditizes first, tacit knowledge resists, elite brands extend while mediocre institutions lose their pricing power. Distance learning is a century old. The economics finally arrived. Schumpeter would approve.