



SOCIONOMIST

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A monthly publication designed to help readers understand and prepare for major changes in social mood.

Back to the School of Hard Knocks? The Education Industry Faces A Multi-Decade Peak

By Alan Hall

America's higher education business is about to hit a patch of trouble. It is in the late stages of a bubble, one that is credit-fueled, government-supported and widely popular.

A massive shift in society's attitudes toward education is beginning, as we shall see. If it continues in earnest, as we expect, educational institutions will soon encounter spectacular challenges to survival.

If your income depends on higher education, get ready by taking clues from the crumbling housing business.

Signs of Peak Psychology

Society's feelings about education shift in concert with social mood. As a 1987 report, "Changing Public Attitudes Toward Higher Education," said:

In the late 1940s ... people had no quarrel with colleges. They wanted more of them, they wanted more young people to go, and they admired professors. This approving public attitude ... continued into and throughout the Golden Era of higher education (1955–1970) ... The confidence of the general public in colleges and universities ... diminished between 1965 and 1985, a period of time in which ... the public and elected officials look[ed] critically at higher education.¹

That bear-market attitude changed in the subsequent bull market. Public Agenda's report on education, titled "Great Expectations," recorded society's mindset toward higher education in 2000, at a historic social mood peak:

Higher education is perceived as extremely important, and for most people a college education has become the necessary admission ticket to good jobs and a middle-class lifestyle.²

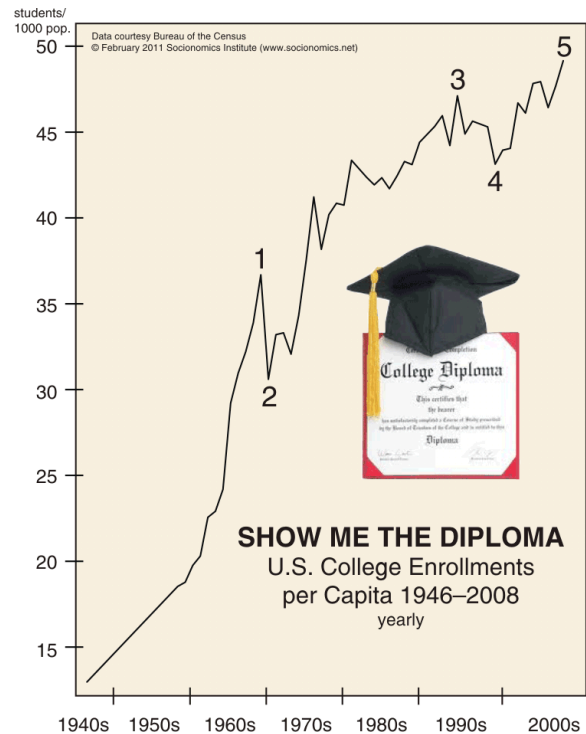


Figure 1

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This peaking psychology is manifesting in record popularity of college education, record tuition prices, record debt levels and several other telling indicators as well.

Record Popularity

Higher education is more popular in America than ever before.

Figure 1 shows U.S. per-capita college enrollment reaching an all-time high in 2008 (the latest data available). Note that while the rapid growth of enrollment from 1946–1969 has slowed, it has nonetheless continued; a larger percentage of Americans are in college today than ever before.

The top line in Figure 2 plots U.S. PhDs granted per capita from 1900–2008 (the latest data available), which has also reached a record high. The average U.S. PhD candidate requires 8.2 years to earn a doctorate,³ so we backset the line by eight years to reflect the moment of decision. Doing so reveals a fair correlation with the Dow Jones Industrial Average, our most sensitive indicator of social mood. We don't know why the 1941 peak in PhDs lagged stocks by an additional three to four years, but it is clear that social mood, via waning optimism, economic decline and war, influences the decision to seek or not seek a PhD.

We predict these lines will continue to track the stock world. By our wave labels, we predict a decline.

Record Prices

Figure 3 shows Yale's tuition prices from 1701–2009 and U.S. stock prices (spliced to British stock prices) from 1695–2009, both adjusted for inflation via the Producer Price Index. Note wave (V) in Yale's tuition. This move began in 1917, and its five-wave structure implies a reversal to 1980s levels—which would erase three decades of tuition hikes. Harvard's tuition data for this period (not shown), while spottier, display the same five-wave sequence.

Yale and Harvard have the longest tuition price histories we could find, and their correlation to social mood is strong, so they serve as our proxy for tuition prices in general.

The Ivies are not the only colleges that have experienced tremendous price inflation. Collegeboard.org reports that average tuition and fees for public four-year colleges in 2010–2011 are 3.59 times as high as they were in 1980–1981, *after* adjusting for inflation via the Consumer Price Index.⁴ In fact, many non-Ivy-League

universities' tuitions have approached and even exceeded those of the Ivies.⁵ According to campusgrotto.com, seven of the eight Ivy League schools made their list of the top 100 most expensive schools in 2008–2009.⁶ In 2010–2011, only five made the list. No Ivy League school reached higher than the 16th most-expensive university in either year, and Harvard never appeared.

Longer term, our research suggests that a larger five-wave Elliott advance in overall tuition prices began almost four centuries ago. If indeed this pattern is nearing completion, the 1917 wave (IV) low is a likely retracement target.⁷

A Flood of EduCredit

Since 1997, the total value of student loans has ballooned over 800 percent, from \$92 billion to \$833 billion. We compared that rate of growth to several other debt categories, such as total U.S. mortgages, government pensions, gross public debt, consumer credit outstanding, total credit card debt and credit market borrowing, none of which came close to this multiple. Student loan growth also far outpaced a number of significant indexes, such as the Case Shiller Home Price Index, the Bureau of Labor Statistics' Medical Care Cost Index and the Bureau of Labor's Prescription Drug Index. In fact, we were unable to find any significant measure that grew faster than student loans over this period. The total amount of U.S. education loans is only about seven percent less than total U.S. defense spending. In June 2010, it surpassed total U.S. credit card debt for the first time.

Despite record levels of federal debt, the U.S. government continues to encourage people to borrow for an education. AP reported on December 18 that Congress' new \$858 billion tax package includes \$22.1 billion in tax breaks, deductions and credits for students and their families.⁸ This is exactly what it did with housing, to a disastrous end.

The For-Profit College Mania

Every asset mania has a heart—the emotional focus of the frenzy. In the late 1990s, it was high-tech stocks and the NASDAQ; in 2003–2006, it was real estate; and in 2007–2008, oil. The heart of today's education bubble is for-profit colleges: private, profit-seeking companies such as Capella University, DeVry University and The University of Phoenix.

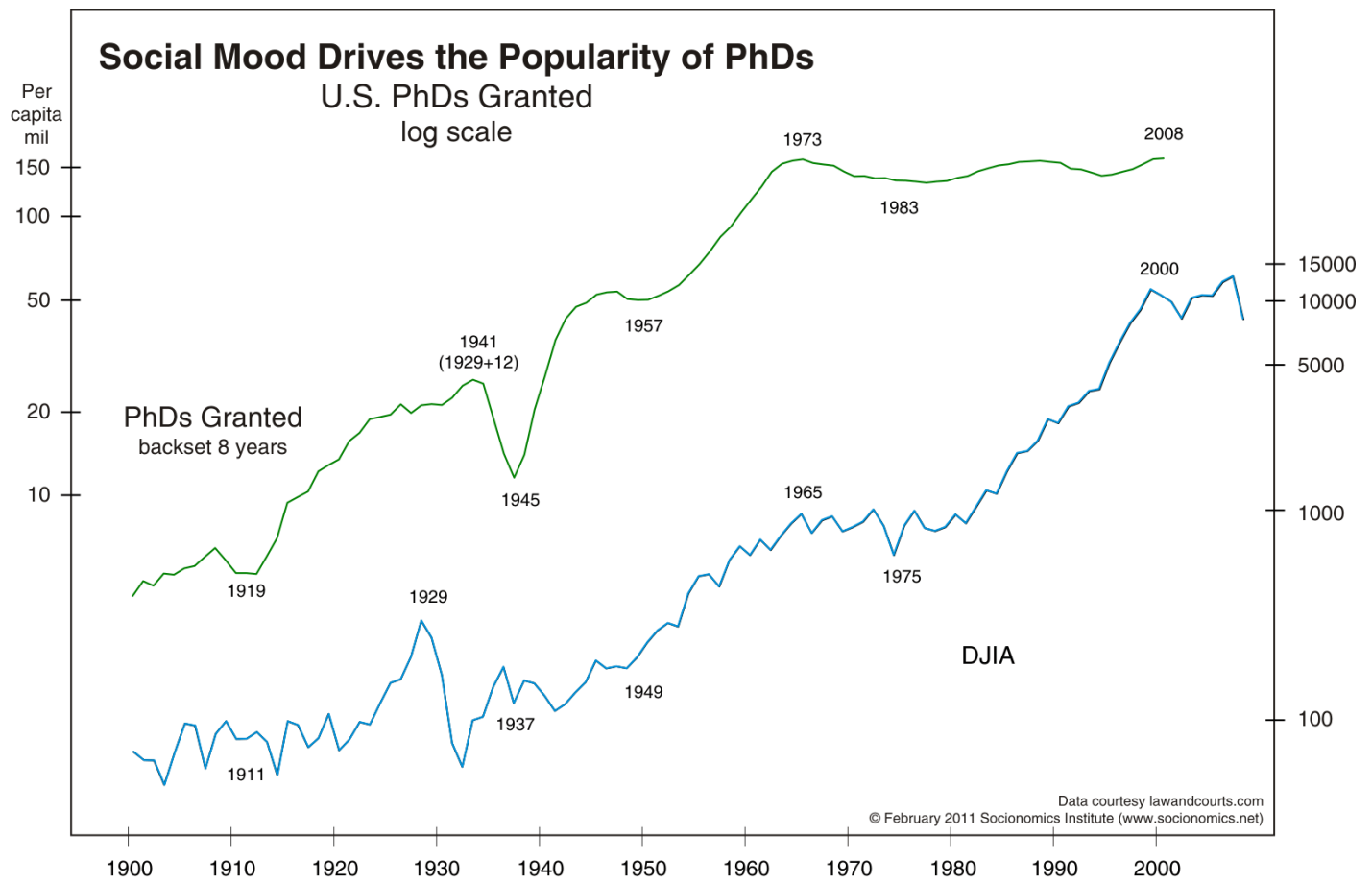


Figure 2

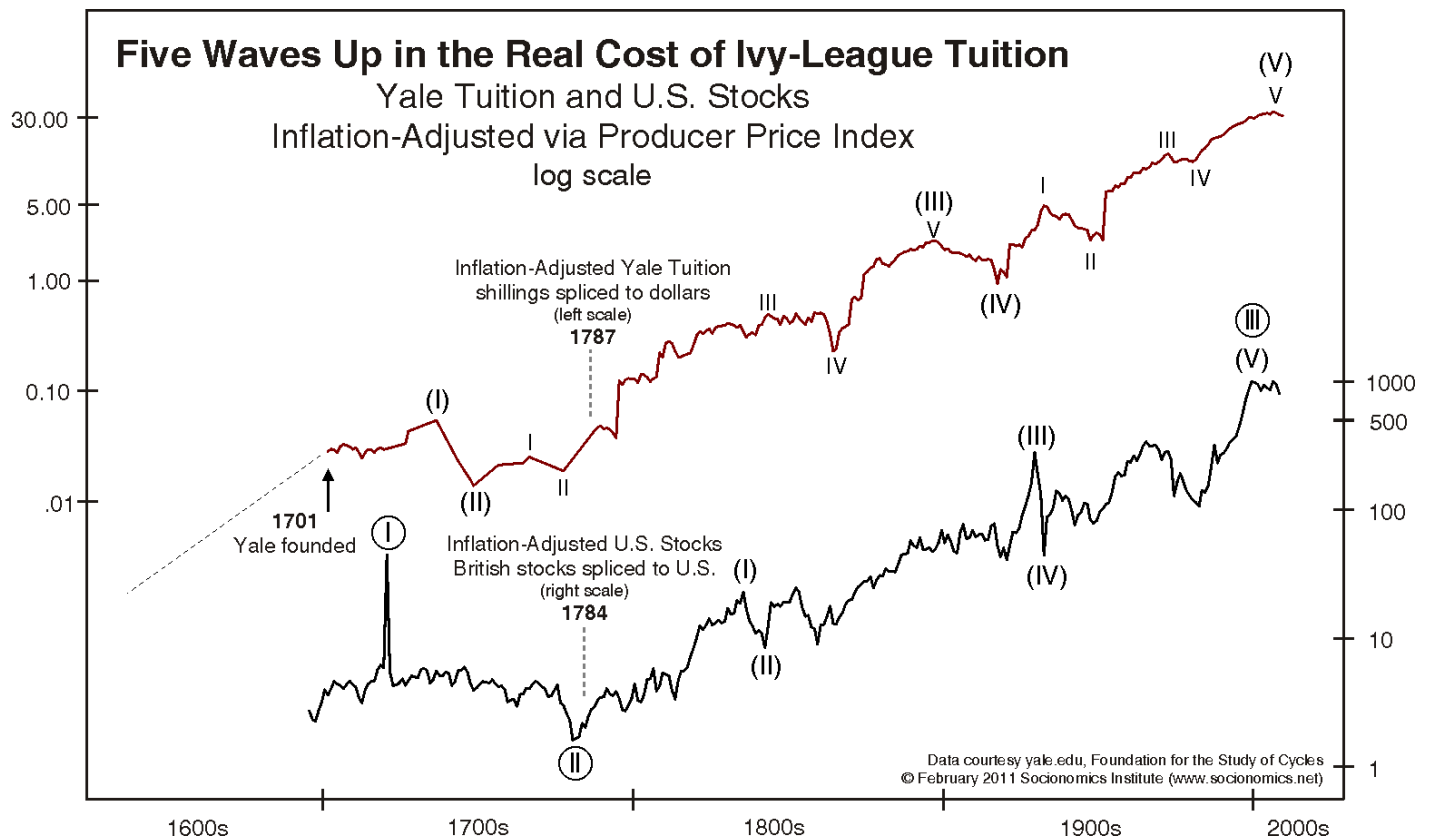


Figure 3

For-profit college enrollments rose more than 20 percent in 2007–2008, and are up more than 60 percent since 2004–2005.⁹

According to “College Inc.,” a PBS Frontline documentary, many for-profit colleges encourage and arrange loans for students, deliver questionable educational value, recruit at job fairs, sport high dropout rates and spend more on marketing than on teacher salaries.¹⁰ The New York Times writes, “Education experts . . . say these schools have exploited the recession as a lucrative recruiting device while tapping a larger pool of federal student aid.”¹¹ No wonder they are behaving this way. As Frontline says, “The taxpayers are essentially funding this industry.”¹⁰

A November 23 Pew Research Center study, “The Rise of College Student Borrowing,” says more students than ever attend private for-profit colleges and are more likely to be older, female, from minority and low-income groups and have dependent children and little parental support. The reason is that they don’t need money; they just need instructions on how to fill out the government’s loan forms:

For almost every field of study at every level, students at private for-profit schools are more likely to borrow and tend to borrow larger amounts than students at public and private not-for-profit schools.¹²

In 2008, 62 percent of bachelor’s degree recipients from public colleges borrowed money, compared to 97 percent in private for-profit colleges.

Even as jobs disappeared amidst the largest overall credit contraction in history, an *education*-related credit boom helped sell college to the broadest audience in history. Before the social attitude shifted, pundits rarely disparaged for-profit colleges, but now they increasingly portray them as shady characters.

Supercycle-Degree Grade Inflation

Positive mood inflates academic grades along with asset values. Writer and teacher Stuart Rojstaczer compared “grade inflation” to an asset bubble. In the January 28, 2003 Washington Post, he explained his perspective as a teacher:

Parents and students want high grades. Given that students are consumers of an educational product for which they pay dearly, I am expected to cater to their desires . . . So I don’t give C’s anymore, and neither do most of my colleagues . . . University leaders, like stock market analysts talking about the Internet bubble not so long ago, sometimes come up with ridiculous reasons to explain grade inflation . . . Many students and parents believe these explanations. They accept the false flattery as the real thing. Unlike high-tech stock prices, the grade inflation bubble, I’d guess, will not burst.¹³

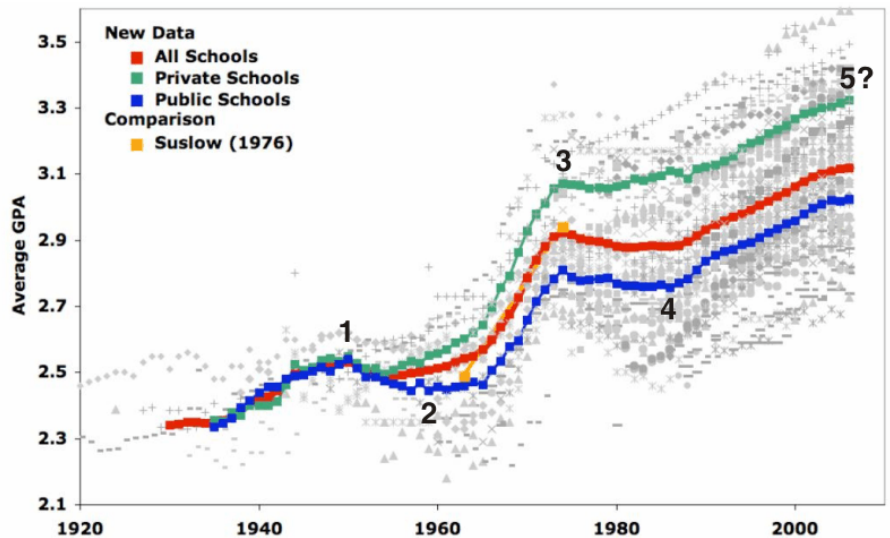


Figure 4

Figure 4 is from Rojstaczer and Christopher Healy’s March 2010 academic paper, “Grading in American Colleges and Universities.”¹⁴ Socionomists can see a clear five-wave rise in grades that began in the 1930s and may already have topped.

Chapter 14 of *The Wave Principle of Human Social Behavior* offers a possible explanation for this broad academic trend. It says a rising social mood generates alignment, benevolence, convergence, liberality, supportiveness and the *tendency to praise*. Declining social mood produces the opposite traits.

Social Mood Drives Academic Performance

We don’t have student performance data for the Great Depression, but we do have some telling anecdotes. In *The Chosen: The Hidden History of Admission and Exclusion at Harvard, Yale, and Princeton*, Jerome Karabel describes how Princeton’s social base became

narrow and insular during the 1930 bear market. He also notes that Carl Brigham, who created the Scholastic Aptitude Test (SAT) and sat on Princeton's Committee on Admissions, "witnessed the unpleasant spectacle of the SAT scores of Princeton freshmen dropping to record lows in the early 1930s."

Figure 5 shows the academic performance rally that followed Princeton's record-low SAT scores. The chart shows high-school seniors' scores on the Iowa Tests of Educational Development (ITED). It is from John H. Bishop's 1989 study in *The American Economic Review*, "Is the Test Score Decline Responsible for the Productivity Growth Decline?" The socionomic answer is *no*, and neither did the decline in productivity cause falling test scores. A trend toward negative social mood caused them both. Bishop's graph shows that scores climbed with social mood to a record high right at the 1966 Cycle-degree wave III peak, bottomed in the late 1970s along with stock values, then rose with stock prices.

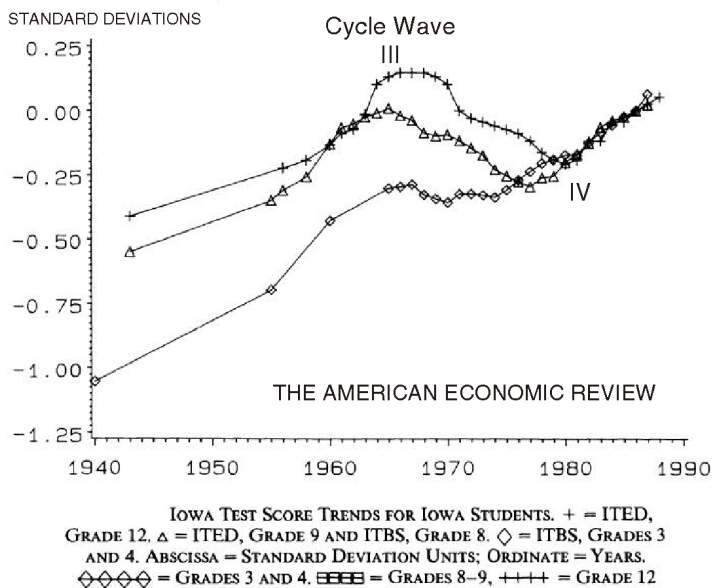


Figure 5

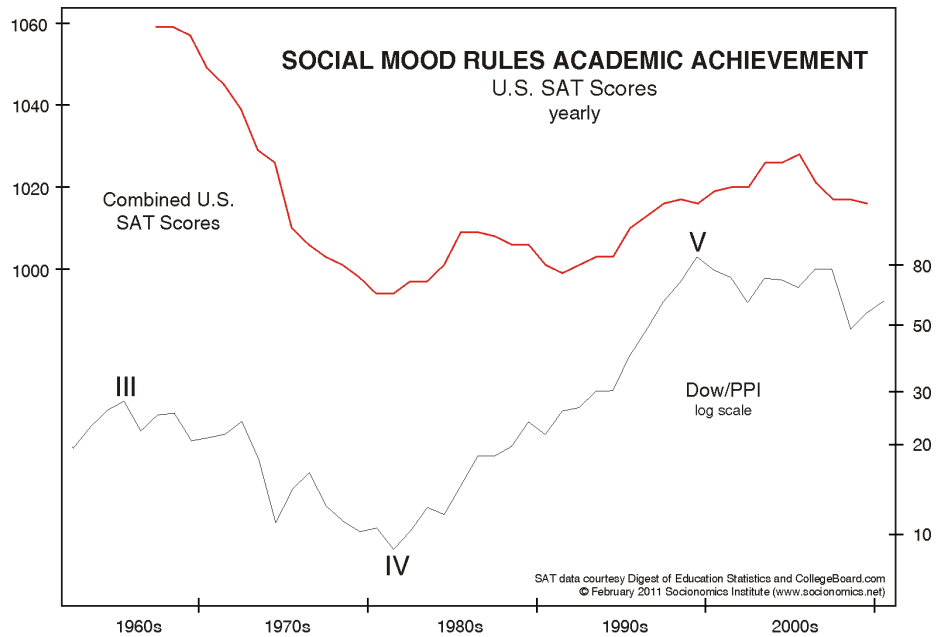


Figure 6

Figure 6 graphs SAT scores and the Dow Jones Industrial Average adjusted for inflation by the Producer Price Index from 1965-2009. The wave IV bear market carried stocks as well as SAT scores to lows in 1981. During the subsequent wave V rally, the rise in SAT scores was interrupted for several years by the 1987–1990 stock market correction, which resulted in recession, extensive layoffs and the biggest collapse in S&P earnings since the early 1940s. After bottoming in 1991, SAT scores then rose until 2005 to peak with real estate, the heart of the mania at that time. Although the causal relationship was not clear to Bishop, it is evident to socionomists that social mood determines educational, business and asset price performance.

A Multi-Decade Shift in Psychology

In financial markets, signs of exhaustion often precede a top. Higher education in the U.S. is giving similar signs. The weariness is apparent via rising drop-out rates, declining international educational rankings, waning student effort, anger about student debt, chronic government intervention, and rising grassroots doubt about the value of higher education. All of these items, taken in context with EWT's social mood forecast, point to a looming reversal.

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Dropouts, Laggards and Slackers

The October 2010 issue of *The Fiscal Times* addresses the dropout rate:

Millions of first-year college students and their families now paying for the most expensive postsecondary education in U.S. history face a land mine: just 56 percent of those who enroll in a four-year college earn a bachelor's degree Over the past decade, the U.S. has fallen from leader to 12th place in the ratio of young people with the equivalent of a bachelor's degree, well behind Russia, Canada, Korea and Japan.¹⁵

A new book, *Academically Adrift: Limited Learning on College Campuses*, is a “damning indictment of the American higher-education system,” according to the *Chronicle of Higher Education*. The authors say large numbers of U.S. college students are failing to develop “general analytical competencies [and] higher-order cognitive skills.”¹⁶

Forty-five percent of students in our sample did not demonstrate any statistically significant improvement in Collegiate Learning Assessment [CLA] performance during the first two years of college. [Further study has indicated that 36 percent of students did not show any significant improvement over four years.]¹⁷

Students have slacked off studying. *Academically Adrift* also found that 35 percent of students reported studying five hours or less per week. And according to the February 2010 “University of California Undergraduate Experience Survey,” the number of hours per week that students spend on leisure and socializing jumped from 25 in 2003 to 41 in 2008. “At every type of institution, in every major, every demographic group, there’s been a longtime increase in leisure time,” said one of the researchers.¹⁸

Doubters

As we have seen, the broader public’s attitude toward education grows more skeptical during bear markets. In 1972, during the Cycle-degree bear market (see Figure 3), Carl Bereiter’s essay, “Schools Without Education,” described rising disillusionment in public schoolchildren: “that a great deal of school work is pointless, that grades don’t really tell how good you

are, that school rituals are a subject for derision.”¹⁹ A 1972 Gallup poll, “Public Attitudes Toward Education,” suggested parents shared these feelings.

As students graduate into today’s bear market, indebted parents, students—and many economists—are beginning to question the value of a college education. We’ve seen numerous stories about this new attitude, such as “What’s a Degree Really Worth?” in *The Wall Street Journal* and “Academic Bankruptcy” in *The New York Times*. A new book, *Higher Education? How Colleges Are Wasting Our Money And Failing Our Kids*, accuses U.S. universities of “educational malpractice.” It says that schools in the U.S. are unique in doling out crippling six-figure loans and that a \$250,000 education from Harvard or Yale is a waste of money. One of the co-authors wrote,

Undergraduate business classes ... are just a charade; 19-year-olds play as if they are chief executives of General Electric. It is a waste of time and money Prices got to where they are because both universities and administrators spent like drunken sailors.²⁰

A March 2011 CNBC article asks, “Is an Ivy League diploma really worth the money?”

“Businesses are giving less preference to Ivy League grads since the advent of specific program rankings,” says Dr. Mel Schiavelli, president of Harrisburg University of Science and Technology in Pennsylvania. “Yale does not have an accounting program that equals the University of Maryland, and accounting firms recruit accordingly.”²¹

High school valedictorian Erica Goldson captured society’s shifting attitude toward education in her June 2010 graduation address, which went viral across the Internet.²² She delivered a powerful and unexpected critique of the institutional educational system, described students forced to “yield to the authoritarian ideologies of instructors” and quoted John Taylor Gatto, a noted critic of compulsory schooling. Goldson also quoted another prominent critic of American life and culture, H.L. Mencken, from *The American Mercury* in April 1924:

The aim of public education is not to spread enlightenment at all; it is simply to reduce as many individuals as possible to the same safe level, to breed and train a standardized citizenry, to put down dissent and originality. That is its aim in the United

States, whatever pretensions of politicians, pedagogues other such mountebanks, and that is its aim everywhere else.



The Treadmill Image: As social mood declines, the “education is futile” mindset grows increasingly popular.

As social mood shifts, doubts about education’s cost/benefit are arising within mainstream culture. The New York Times reports:

With no advertising and little news media attention, “Race to Nowhere” has become a must-see movie in communities where the kindergarten-to-Harvard steeplechase is most competitive. The movie looks at “the downside of childhoods spent on résumé-building . . . portrays the pressures when schools pile on hours of homework . . . introduces boys who drop out of high school from the pressure, girls who suffer stress-induced insomnia and worse, and students for whom “cheating has become another course.”²³

One psychologist in the film says, “When success is defined by high grades, test scores, trophies, we know that we end up with unprepared, disengaged, exhausted and ultimately unhealthy kids.” A similar, even better-known movie, “Waiting for Superman,” is the 20th most successful documentary film ever, according to Box Office Mojo.

Doubts about the value of education extend even to the very top degrees. The Economist writes,

A PhD may offer no financial benefit over a master’s degree. It can even reduce earnings . . . Drop-out rates suggest that many students become dispirited . . . Research at one American university found that

those who finish [their PhDs] are no cleverer than those who do not . . .²⁴

The Economist depicts “armies of low-paid researchers and postdocs” as “the ugly underbelly of academia” and says many PhD students “describe their work as ‘slave labor’”:

The production of PhDs has far outstripped demand . . . America produced more than 100,000 doctoral degrees between 2005 and 2009. In the same period there were just 16,000 new professorships . . . Universities have discovered that PhD students are cheap, highly motivated and disposable labor . . . In Canada 80% of postdocs earn \$38,600 or less per year before tax—the average salary of a construction worker.²⁴

Government “Reform”

The title of the aforementioned documentary film, “Race to Nowhere,” is a play on Barack Obama’s hopeful “Race to the Top” fund, which provides competitive grants to schools that implement teacher testing and other requirements. Diane Ravitch, an education historian and former United States Assistant Secretary of Education, criticizes the strategy, saying it presupposes a “crusading confidence that data—derived from testing—can tell us all we need to know not just about what’s wrong with failing schools, but how to fix them.” Ravich depicts “a culture of test-prep that is inimical to real education.” She writes:

No school or school district or state anywhere in the nation had ever proved the theory correct. Nowhere was there a real-life demonstration in which a district had identified a top quintile of teachers, assigned low-performing students to their classes, and improved the test-scores of low-performing students.²⁵

Charter schools, another linchpin of education reform, aren’t measuring up:

[A] study by two Stanford economists . . . (staunch charter supporters), involved an enormous sample, 70 percent of all charter students. It found that an astonishing 83 percent of charter schools were either no better or actually worse than traditional public schools . . .²⁵

No scheme can fix the shifting social mood that is sapping student attitude and effort and decreasing overall educational performance.

Malaise and Mental Illness

There are broader signs of the “education is futile” attitude in Europe, where Italy’s president complains of “the pervasive malaise among young people.” A former Italian prime minister says, “[Student] protests [are] against a general situation in which the older generations have eaten the future of the younger ones.” In Spain, “mileuristas”²⁶ (thousand-euro-ers) is the new term for a generation of college graduates facing low pay and terrible job prospects. In France, they are “the ‘babylosers’”—a term coined by sociologist Louis Chauvel to contrast them with ‘babyboomers’.”²⁷ In the U.K., former Prime Minister Gordon Brown warns, “the world faces youth unemployment of ‘epidemic proportions.’”²⁸

As a consequence of the large-degree mood decline, U.S. college students’ mental health has worsened over the last decade, according to *The New York Times*:

National surveys show that nearly half of the students who visit counseling centers are coping with serious mental illness, more than double the rate a decade ago. More students take psychiatric medication, and there are more emergencies requiring immediate action.²⁹

A recent student survey by the American College Counseling Association found, “44 percent [of the students] in counseling have severe psychological disorders, up from 16 percent in 2000.”

Conservatism

Education has long been seen as the surest road to material wealth. Our final sign of psychological exhaustion of the multi-decade uptrend is society’s rising disdain for materialism. For example, Merriam Webster recently chose “austerity” as its 2010 word of the year. In May 2010, Federal Reserve Chairman Ben Bernanke advised University of South Carolina graduates that money isn’t so great: “Having a larger income is exciting at first, but as you get used to your new standard of living ... the thrill quickly wears off.”³⁰ Such a statement from the world’s inflationist-in-chief would not have happened just a few years ago. And with perfect timing, a recent study “provides the first evidence that money impairs people’s ability to savor everyday positive emotions and experiences.”³¹ These are but a few examples of education’s bear-market headwind. Nevertheless, individuals and families cognizant of the trend in educational attitudes can choose to act independently of it.

Education’s Next Chapter

If EWI’s Elliott wave forecast proves correct, social mood will continue the Supercycle-degree decline that began in 2000, reversing many long-term upward trends in education. If the attitude shift in the previous Cycle-degree bear market of 1966–1982 proves a valid guide, society will increasingly reject the popular view that a college degree is necessary to prosper.

For-Profit Scapegoat Potential

The desire to expose scandals and punish scapegoats heats up during bear markets, and indeed, anger is beginning to bear down on some of the more opportunistic for-profits. In August 2010, the U.S. Government Accountability Office released a report, “‘Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices’ which detailed undercover investigations into 15 for-profit schools that uncovered misconduct by school staff.”³² The SEC launched an insider trading investigation into Apollo Group—one of the largest for-profit education corporations—in October 2010. If social mood declines as EWI expects, we may see academic versions of the Madoff scandal.

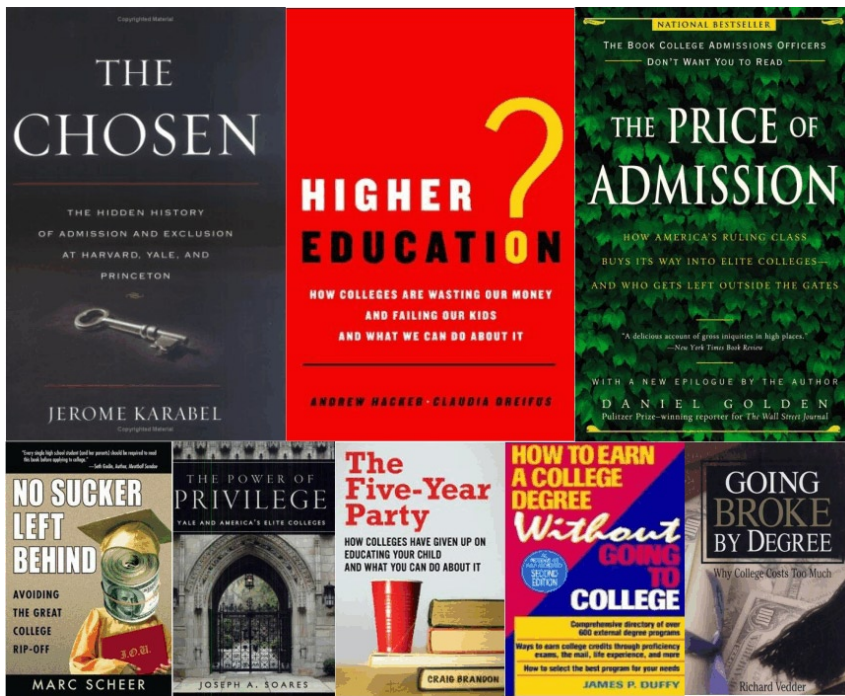
Ivy-League Scapegoats

Today we see early signs of social mood forcing higher education into the role of scapegoat. For example, Christopher Shea’s recent article, “The End of Tenure?”:

In tough economic times, it’s easy to gin up anger against elites. The bashing of bankers is already ... robust But in recent months, a more unlikely privileged group has found itself in the cross hairs: tenured professors.

Shea says numerous blogs and op-ed pages now portray tenure as elite entitlement:

... guaranteed jobs for life, teach only a few hours a week, routinely get entire years off, dump grading duties onto graduate students Or maybe they stop doing research ... dropping their workweek to a manageable dozen hours or so, all while making \$100,000 or more a year. Tenured and tenure-track professors earn most of the money and benefits, but they’re a minority at the top of a pyramid.³³



Bear-Market Baccalaureate-Bashing: Booksellers may want to stock up on anti-Ivy-League and anti-college tomes, which should fly off shelves. And perhaps the DIY (Do It Yourself) book genre will yield to LIY (Learn It Yourself).

More Walkaways

The wave of student loan defaults is surging.

The U.S. Education Department expects nearly half of the money lent to students attending for-profit colleges to enter default over a 20-year period [and] that 16 percent of the dollars lent to all college students who entered repayment in 2008 will go into default.³⁴

“College Inc.,” the PBS Frontline documentary mentioned previously, says, “If you default on a federal student loan, you will be hounded for life.” After intensive lobbying, Congress made student borrowers of private loans equally liable. Yet, as more ex-students struggle with edu-debt, and public attitude swings against the higher education system and debt collection (think “Foreclosuregate” and “robo-signers”), borrowers will find ways to escape payment, or Congress may shift the load to taxpayers. Congress is now considering setting major precedents for debt forgiveness:

Policy makers are working behind the scenes to come up with a way to let states declare bankruptcy and get out from under crushing debts, including the pensions they have promised to retired public workers.³⁵

If such legislation passes, student loan forgiveness could eventually follow. And as the bear market heats up according to EWT’s expectations, the 50% default rate

predicted by the education department will prove far too conservative.

Evaporating Endowments

A severe bear market will cause tuition and enrollment to decline across the board. College endowments should vaporize again as well, much as they did when Harvard lost 30 percent of its endowment funds in the financial decline of 2007–2009. With the subsequent social mood rebound, Harvard Management Co. reverted to full optimistic mode. Barron’s reported on December 22, “Much of Harvard’s portfolio is a ‘who’s who of emerging markets ETFs.’”³⁶ As social mood turns down again in Asia, this approach will produce expensive losses.

Expect Fundamental Changes

Elliott wave analysis suggests that the bear market will be larger than that of 1929–1932, which implies huge structural changes in education. Traditional educational institutions may eventually lose control of the manufacture and distribution of education much as the music and publishing industries lost their grip on music and text. Bear markets topple dominant players and open the field to nimbler entrepreneurs, who will develop alternatives to institutional education. This process is already under way. For example, there are about 5400 educational apps for the iPad,³⁷ and in January, Mashable.com posted a list of 100 impressive new online educational resources.³⁸

Most institutional educators will not see the massive change coming. A generation or two of young people will find ways to bypass traditional secondary education; the majority may avoid it completely. High schools are in for a rough ride as well.

A negative social mood trend favors traits of polarization, avoidance of effort, exclusion, separatism and de-centralization. These tendencies will increasingly burden institutional education. Although rocker Alice Cooper sang, “School’s out for summer,” education may be “out” for longer than that as social mood ushers in its long winter.

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- ⁷Harvard University. (2003). *Dictionary of american history*. Retrieved January 24, 2011, from http://www.encyclopedia.com/topic/Harvard_University.aspx#1-1G2:3401801856-full. The premise for our assumption that pre-1701 tuition prices were lower: In 1636, when Harvard was founded, "Tutors[were] ill-paid... Harvard students, many of whose families paid their tuition with farm produce, consumed much 'beef, bread, and beer' and fathers frequently had to pay for broken windows."
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