

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

# AMERICA'S FISCAL FUTURE:

Implications for Higher  
Education and Global  
Competitiveness

**The Honorable David M. Walker**  
Comptroller General of the United States

Council of Graduate Schools Annual Meeting  
Washington, D.C.  
December 7, 2006



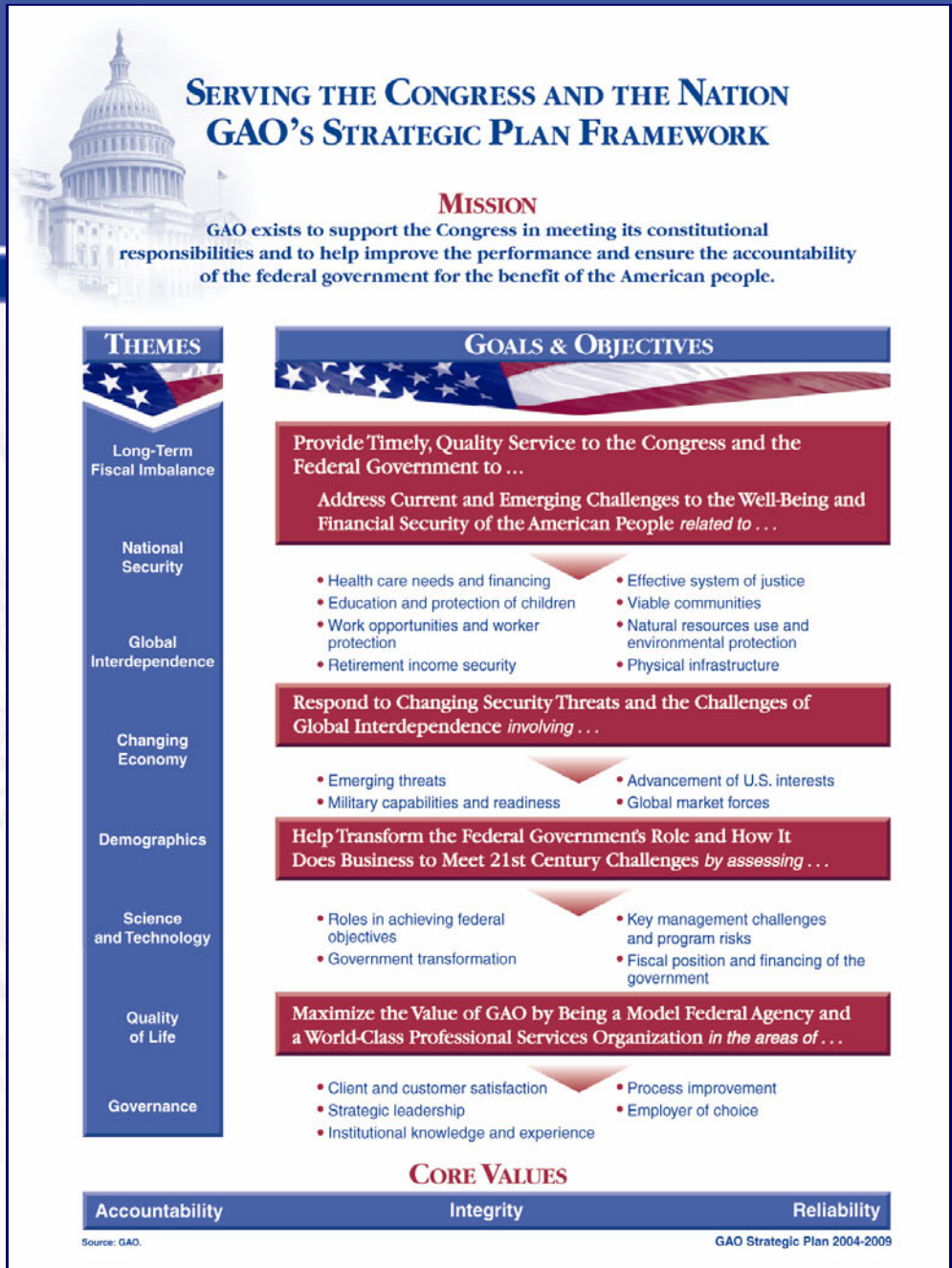
# About GAO

- **The U.S. Government Accountability Office (GAO) is an independent agency in the legislative branch of the federal government**
- **GAO examines how taxpayer dollars are spent and advises lawmakers and agency heads on ways to make government better**
- **Most GAO work is done at the request of congressional committees or subcommittees or is mandated by public laws or committee reports. GAO also undertakes research under the authority of the Comptroller General**
- **GAO's work spans a range of oversight, insight, and foresight related work**
- **Every GAO report reflects three core values: accountability, integrity, and reliability**

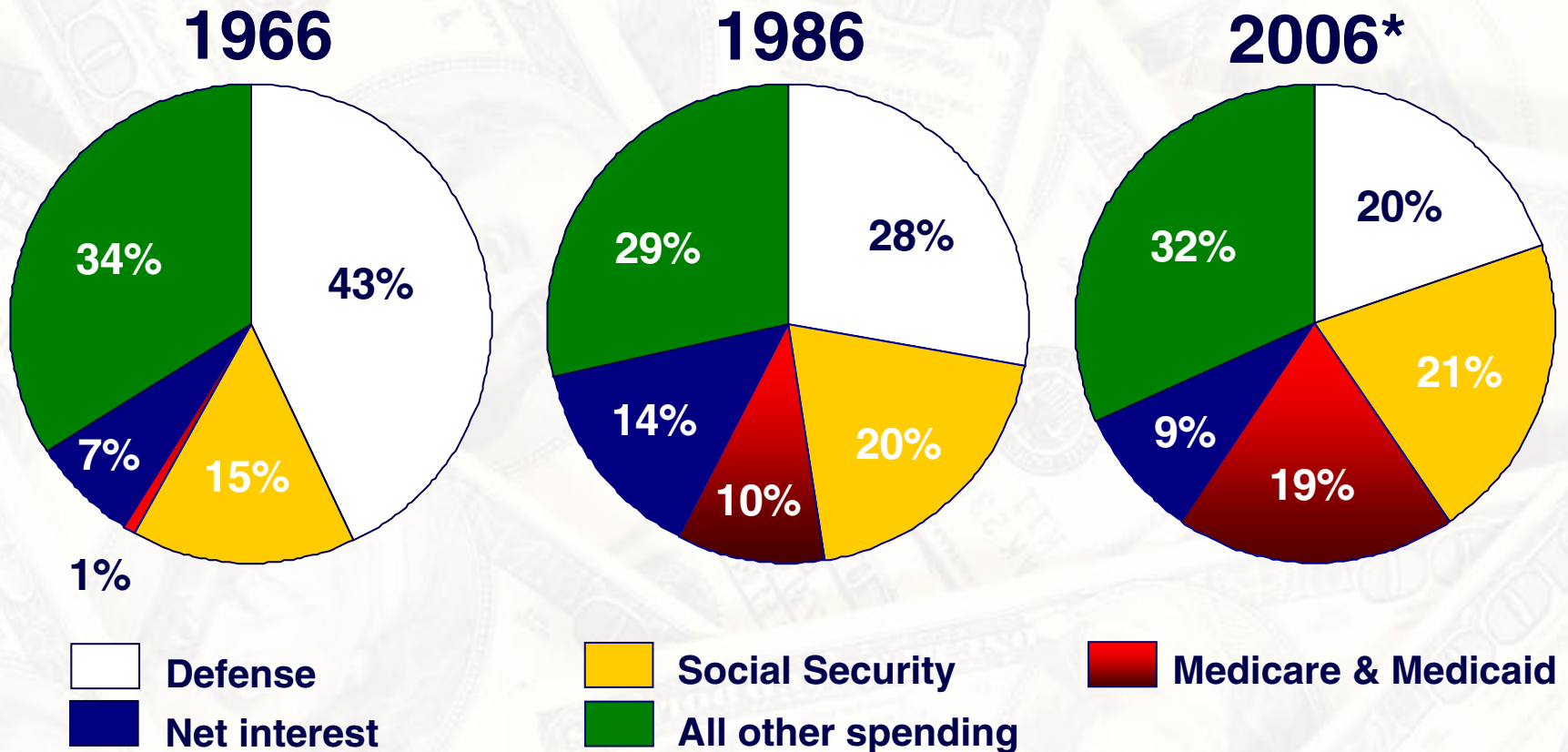
# GAO's Strategic Plan

One of GAO's four goals relates to the provision of timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.

A key component of this goal relates to the **education of Americans of all ages**



# Composition of Federal Spending



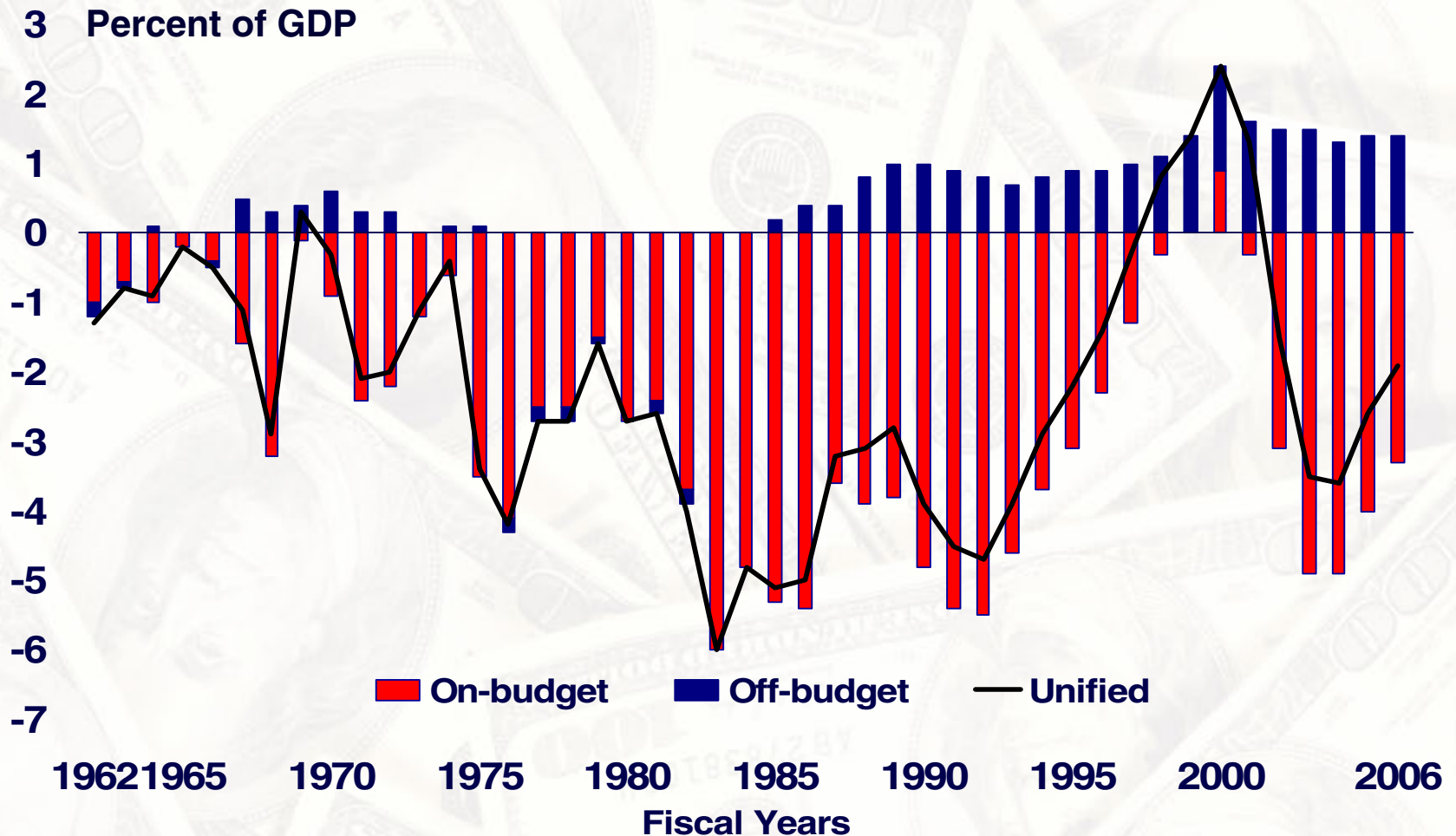
\*Preliminary.

Source: Office of Management and Budget and the Department of the Treasury.

Note: Numbers may not add to 100 percent due to rounding.

# Surplus or Deficit as a Share of GDP

## Fiscal Years 1962-2006



Source: Office of Management and Budget, Department of the Treasury and the Congressional Budget Office.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
On-Budget Deficit	(494)	(434)
Off-Budget Surplus*	175	186
Unified Deficit	(318)	(248)
Net Operating Cost	(760)	Not available

\*Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

Sources: The Office of Management and Budget and the Department of the Treasury.

# Estimated Fiscal Exposures

(\$ trillions)

	2000	2006
<b>• Explicit liabilities</b>	<b>\$6.9</b>	<b>\$10.2</b>
<ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul>		
<b>• Commitments &amp; contingencies</b>	<b>0.5</b>	<b>0.9</b>
<ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>		
<b>• Implicit exposures</b>	<b>13.0</b>	<b>38.8</b>
<ul style="list-style-type: none"> <li>• Future Social Security benefits</li> </ul>	3.8	6.4
<ul style="list-style-type: none"> <li>• Future Medicare Part A benefits</li> </ul>	2.7	11.3
<ul style="list-style-type: none"> <li>• Future Medicare Part B benefits</li> </ul>	6.5	13.1
<ul style="list-style-type: none"> <li>• Future Medicare Part D benefits</li> </ul>	--	8.0
<b>Total</b>	<b>\$20.4</b>	<b>\$49.9</b>

Source: U.S. government's consolidated financial statement, Social Security and Medicare Trustees reports and Monthly Treasury Statement, September 30, 2006.

Note: 2006 estimates are preliminary. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

**Our total fiscal burden can be translated and compared as follows:**

<b>Total fiscal exposures</b>	<b>\$49.9 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$53.3 trillion</b>
<b>Burden/Net worth ratio</b>	<b>94 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$165,000</b>
<b>Per full-time worker</b>	<b>\$395,000</b>
<b>Per household</b>	<b>\$435,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$46,326</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$32,392</b>

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: September 2006, table 2, 2006:Q3, (Oct. 30, 2006).

Sources: GAO analysis.



# Composition of Spending as a Share of GDP

## Under Baseline Extended (January 2001)

Percent of GDP

50

40

30

20

10

0

Revenue

2005

2015\*

2030\*

2040\*

Fiscal year

■ Net interest

■ Social Security

■ Medicare & Medicaid

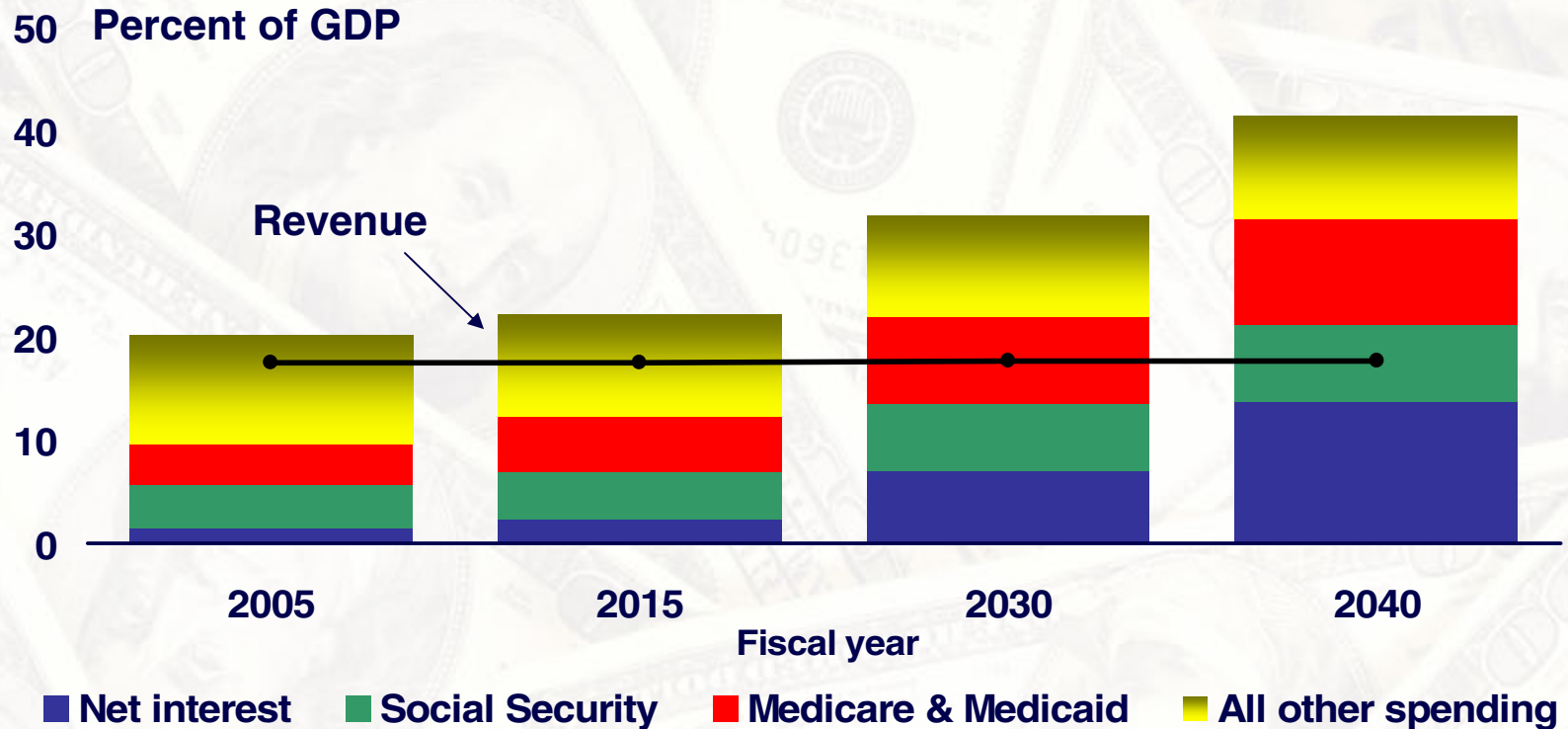
■ All other spending

\*All other spending is net of offsetting interest receipts.

Source: GAO's January 2001 analysis.

# Composition of Spending as a Share of GDP

(Assuming Discretionary Spending Grows with GDP After 2006 and All Expiring Tax Provisions are Extended)



Source: GAO's August 2006 analysis.

# Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
  - Cutting total federal spending by about 60 percent or
  - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

# The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamental Reexamination & Transformation for the 21<sup>st</sup> Century (i.e., entitlement programs, other spending, and tax policy)**

*Solutions Require Active Involvement from both the Executive and Legislative Branches*

# Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally

# Key National Indicators: Where the World's Sole Superpower Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

# 16 OUT OF 28

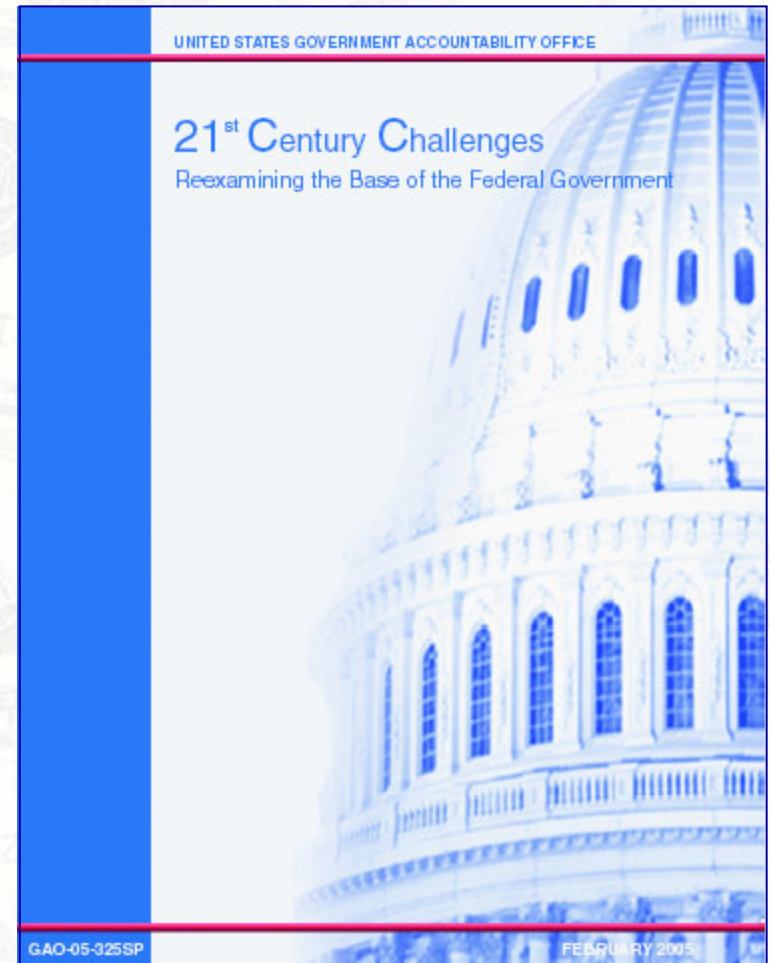
## OECD Categories for Key Indicators (2006 OECD Factbook)

• Population/Migration	• Energy	• Environment	• Quality of Life
• Macroeconomic Trends	• Labor Market	• <b>Education</b>	• Economic Globalization
• Prices	• Science & Tech.	• Public Finance	

Source: 2006 OECD Factbook

# 21<sup>st</sup> Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



# Twelve Reexamination Areas

## MISSION AREAS

- Defense
- **Education & Employment**
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

## CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System



# Illustrative 21<sup>st</sup> Century Questions: Education and Employment

- How can existing policies and programs be reformed to ensure that employers have sufficient numbers of workers with the right skills?
- Is there a need for better coordination—or integration—among higher education policy tools (such as grants, loans, and tax preferences) and/or periodic examination of those policy tools that are not routinely subject to periodic reauthorization or appropriation, such as the Hope and Lifetime Learning tax credits, for which tax filers claimed slightly more than \$6 billion in 2005?

# Illustrative 21<sup>st</sup> Century Questions: Education and Employment

- How can the United States balance immigration policies, such as worker and student visa programs, to address employers' needs for workers with particular skills (particularly math and science), the nation's need to maintain global leadership in areas such as science and higher education, and the nation's homeland security requirements?

# Comptroller General Forum on Global Competitiveness: Implications for the Nation's Higher Education System

**On September 19, 2006, the Comptroller General held a forum at GAO on global competitiveness**

- Attendees included the Presidents of the American Council on Education and the Council of Graduate Schools, as well as representatives from universities and the U.S. Departments of Education, Labor, State, and Homeland Security
- The final document, summarizing the ideas and themes that emerged from the forum, will be released in January, 2007

# Changing Landscape of Higher Education: Increasing Competition Worldwide for Talent

- **The United States relies on its higher education system to attract worldwide talent, stimulate growth in developing countries, and build bridges between nations and cultures**
  - International students support economic and foreign policy interests
  - Talented foreigners bring needed skills to our workforce and have been important sources of innovation and productivity in our increasingly knowledge-based economy
  - Even if students return home after their studies are complete, their experiences in the U.S. can foster greater understanding between the U.S. and other nations
- **However, the global landscape of higher education is changing and providing growing alternatives for students**
- **In addition, changes to U.S. visa policies made after September 11<sup>th</sup> may have discouraged some students from coming here to study**
- **Given these factors, the federal government has a responsibility to examine the impact of emerging trends in higher education on U.S. competitiveness, and to determine how the U.S. can best ensure that it continues to attract needed skills and to build bridges with other nations**

# Changing Landscape of Higher Education: Providing More Choices for Students Worldwide

- **Traditional “sending” countries have improved their educational capacities**
  - *China’s higher education capacity has increased by at least 25 percent each year from 2000 to 2004*
- **U.S. universities are establishing campuses abroad and forming alliances with institutions on other continents**
  - *U.S. universities and colleges offer degree programs in at least 40 countries*
- **For-profit companies have expanded offerings, and advancing technology and online options have made it easier for students to take courses from virtually anywhere**
  - *Laureate Education, Inc. reported a worldwide campus-based student enrollment of almost 200,000 in 2006. Its online enrollment more than doubled between 2002 and 2006 – from 13,268 to 29,134 students.*

# Other Countries Have Implemented Strategies to Attract More International Students

- **Introduced comprehensive marketing campaigns**
  - *“The New World Class—Educated in New Zealand”*
  - *“Hi! Potentials: International careers made in Germany”*
- **European countries have a goal to form the “European Higher Education Area” by 2010, which would allow for greater student mobility and degree comparability within the EU and other countries**
- **Changed visa policies to lower barriers to entry**
  - *United Kingdom streamlined student visa application process*
- **As a way to increase their appeal to students, made it easier to stay and work after graduation**
  - *Australia gives additional points on application for permanent residency for degrees earned there*

# Against This Backdrop, the U.S. Increased Burden on Students Applying for Visas

- **The United States made some changes post-9/11 that expanded student visa requirements and made it more difficult to apply for a visa**
  - Required face to face interviews
  - The number of security reviews for students and scholars in certain science and technology fields increased
  - Many students must pay additional fee to fund Student and Exchange Visitor Information System (SEVIS)
- **These changes, made to help protect our nation's security interests, may have fueled perceptions that some foreign groups are unwelcome here**
- **The State Department recently has made some adjustments to try to help ease burden, such as expediting interviews for students, allowing visas to be issued to students longer in advance of their school start-date, and extending the length of time that some visa clearances are valid**

# International Student Enrollment in the U.S. Has Levelled Off, but May Soon Rise

Estimated number of international students

650,000

600,000

550,000

500,000

450,000

400,000

350,000

300,000

1984-85  
1985-86  
1986-87  
1987-88  
1988-89  
1989-90  
1990-91  
1991-92  
1992-93  
1993-94  
1994-95  
1995-96  
1996-97  
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2001-02  
2002-03  
2003-04  
2004-05  
2005-06

Year

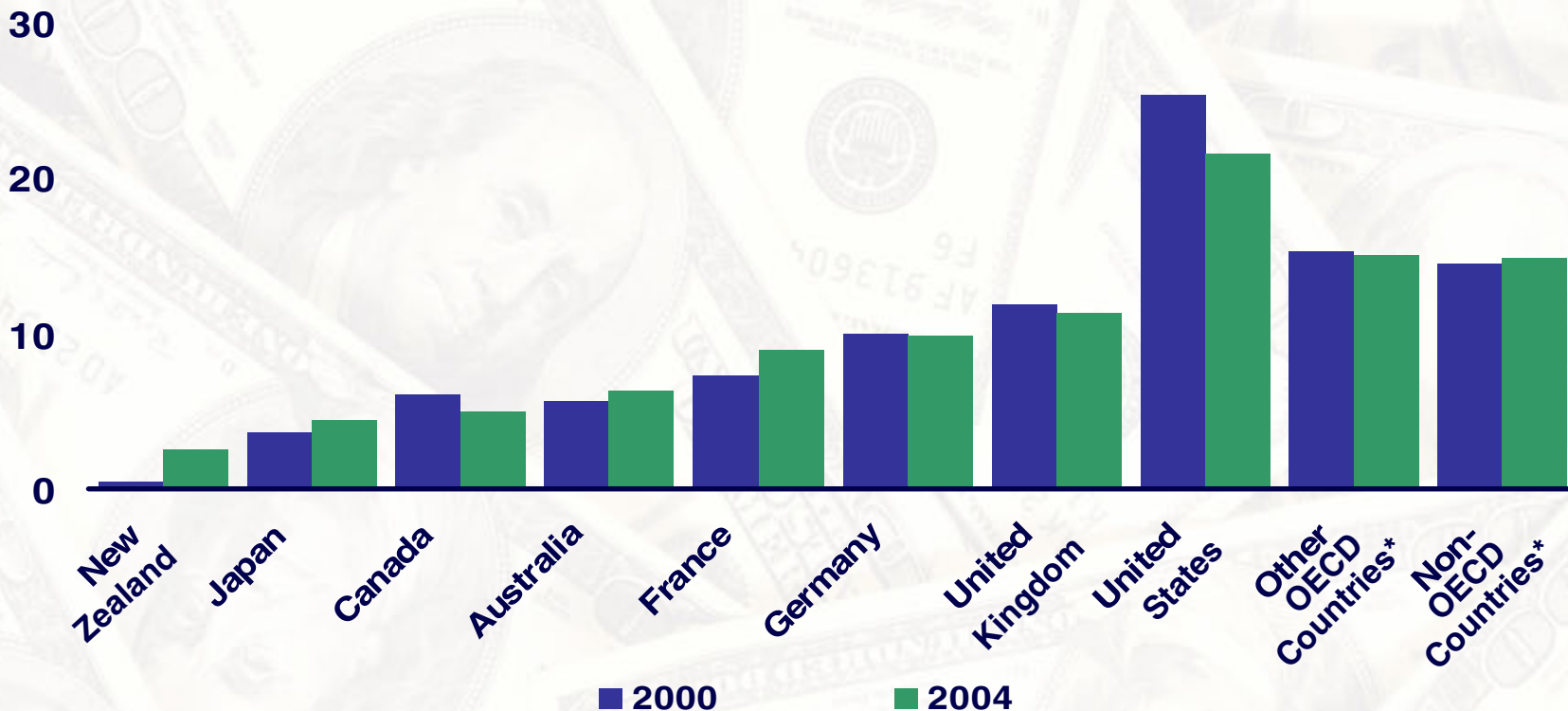
A recent CGS poll of nearly 200 graduate schools showed a 12 percent jump over the previous year in first-year enrollment of international students

Source: Institute of International Education (IIE) data for all years except 2004/05, which is from the College Board Annual Survey of Colleges.



# In Addition, the U.S. Has the Most International Students, but Our Share Has Decreased

Estimated percentage

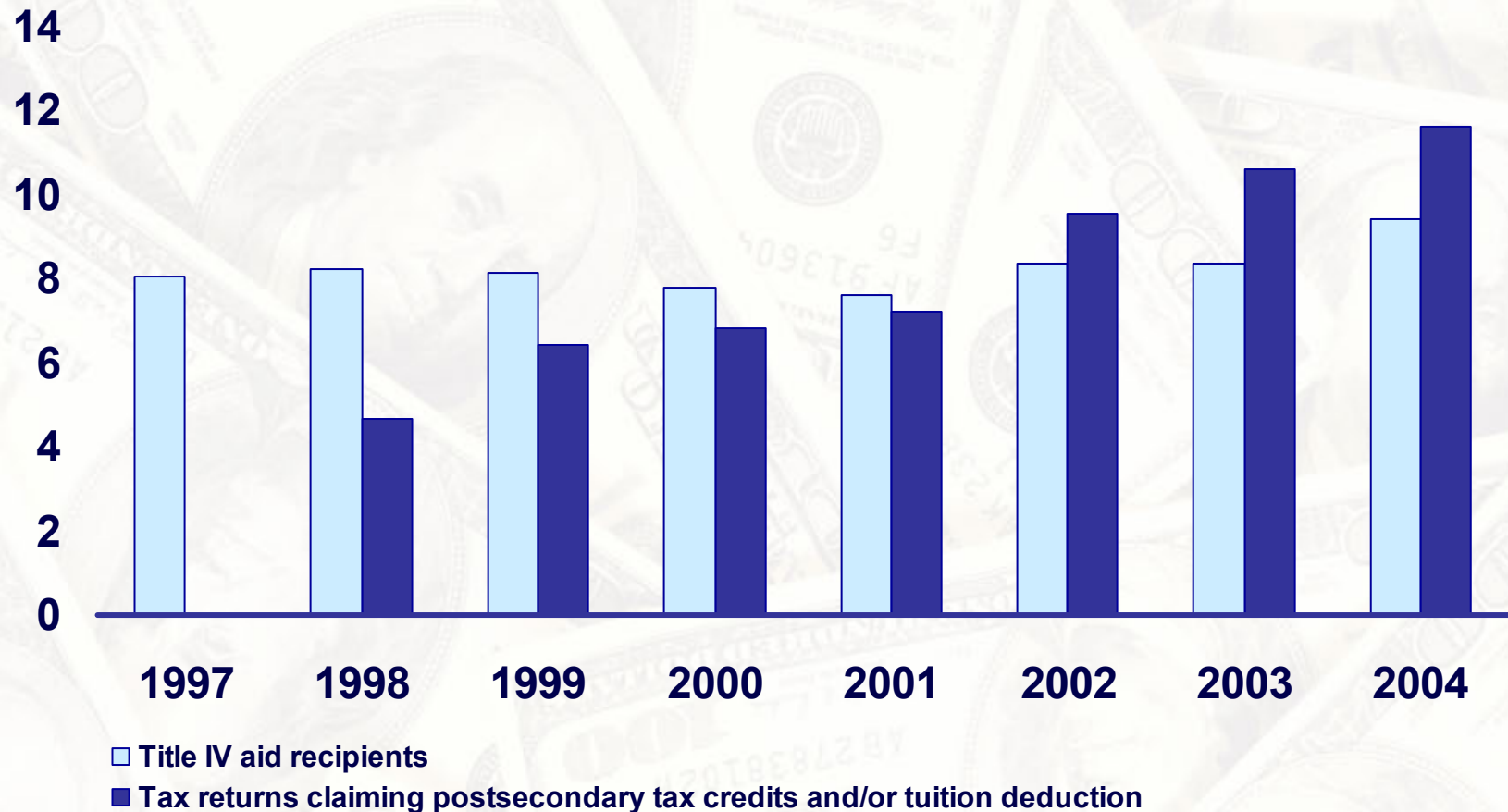


\*Other countries are: Austria, Spain, Switzerland, Italy, Turkey, Sweden, Denmark, Hungary, Ireland, New Zealand, Norway, Poland, Czech Republic, Finland, and Korea.

Note: Information in this graph includes only those OECD countries for which both 1998 and 2003 data were available. GAO did not assess the reliability of the data for the percentage of students enrolled in schools outside the U.S. Also, the definition of foreign students is not uniform across countries.

Source: Organization for Economic Co-operation and Development (OECD) data.

# Tax Preferences More Widely Used Than Federal Financial Aid



Source: GAO analysis of Budget of the United States Government and Internal Revenue Service data (see GAO-07-262T).

# Cost of Graduate School Also Problematic

- The annual price of attending master's and doctoral programs is on the rise and paying for graduate education is challenging for all students
- It will be important to consider what impact, if any, the rise in graduate borrowing will have on future enrollment and employment
- CGS and others continue to study these important issues

# Key Oversight Areas for Congress

**On November 17, 2006, the Comptroller General submitted a letter to Congress recommending three areas of consideration to improve the 110<sup>th</sup> Congress' oversight of federal programs:**

- Targets for near-term oversight (e.g., enhancing border security and enforcement of existing immigration laws)
- Policies and programs that are in need of fundamental reform and re-engineering (e.g., **assuring the quality and competitiveness of the U.S. education system**)
- Governance issues that should be addressed to help ensure an economical, efficient, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21<sup>st</sup> century (e.g., pursuing the development of key national indicators)

# Assuring the Quality and Competitiveness of the U.S. Education System

## Recommended Congressional actions to improve oversight of the education system:

- Assess the impact of efforts to close achievement gaps among disadvantaged populations in K-16+ education
- Assess the effectiveness of education programs in meeting the needs of the 21<sup>st</sup> century workforce
- Assess the efficiency and effectiveness of programs designed to promote access to and affordability of postsecondary education
- Assure a proper balance between immigration policies, such as work and student visa programs, to address the nations' need for people with skills (particularly in areas such as math and science)—and the nations' homeland security requirements

# Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***

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## On the Web

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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