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## Higher Education Costs and The Excelsior Scholarship: Who Pays, and Who Receives?

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**Higher Education Costs and The Excelsior Scholarship: Who Pays,  
and Who Receives?**

Senior Project Submitted to  
The Division of Social Studies  
Of Bard College

by  
Anirudh Hungund

Annandale-on-Hudson, New York

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## **Chapter 1: Introduction**

Higher education has always been a focal point of political debate in the United States. Tuition costs today cause significant financial strain on many families. Politicians and academics have proposed numerous methods to alleviate the financial duress caused by attending an institution for higher education. These methods typically attempt to tackle the cost of tuition, which is often a significant portion of the financial burden of an individual attending higher education. The purpose of this thesis is to evaluate the current situation in the United States, with regards to the financial burden of attending a college or university, and also to evaluate the New York State Excelsior Scholarship. This scholarship aims to alleviate the burden of tuition by covering the cost of tuition for all eligible New York State residents at any SUNY or CUNY college.

Before evaluating the Excelsior scholarship and other measures to alleviate tuition costs, it is important to understand the nature of higher education in America. As such, Chapter 2 is dedicated to explaining, in detail, how financial aid in the United States currently works, and elaborate on aspects of the financial burden of tuition payments, including issues with student loans. After this, the chapter will address the reasons why students choose to attend college, even with all of the financial duress, which is important, as it helps make the shift from perceiving college education as a choice or luxury to a viewpoint of it as a necessity. These various explanations will provide an extensive understanding of the nature of the problem that is higher education.

Chapter 3 focuses on detailed explanations of various aspects of tuition free programs. As the focus of this thesis is on the Excelsior scholarship, the first two sections outline how it works and describes some early criticisms of the program. Following this, the chapter describes the nature of tuition free higher education in other nations. The chapter evaluates the education models of those countries, and, through information from academic literature, helps lay out the drawbacks and the benefits of these systems. This description helps give credence to the scholarship, and other tuition free programs, as the success of similar programs in other nations could be indicative of the potential for the program to succeed here. However, every nation has a unique set of problems and expenses, and thus the results of tuition free education in other countries does not always translate to the same result in the United States. As a result, the next chapter focuses entirely on the Excelsior scholarship, as the program is more representative of the United States educational system.

Chapter 4 analyses the Excelsior scholarship through a variety of methods. With sufficient framework being provided for American higher education and the Excelsior scholarship, the final step has to be analyzing the potential effectiveness of the Excelsior scholarship. To do this, the first section of the chapter lay out a cost benefit analysis of the scholarship. A cost benefit analysis really helps understand how feasible the program is for the state government, and helps to see how much benefit the recipients actually receive. The next section lays out a distributional consequences analysis, which shows how much recipients from different income groups benefit from the program. The scholarship was aimed to help low income and mid income households specifically, and thus it is imperative to make sure that these groups of people are the ones actually receiving the benefit from the scholarship. Finally, the



chapter analyses the scholarship from a more holistic viewpoint. Discussions about government programs are often limited to the financial aspect of it, rather than the moral aspect of it. As a result, I decided that a section of the analysis has to be about the good that the scholarship will do for those who need it. The section discusses role that the government should play in ensuring the wellbeing of citizens, and considers whether higher education is a right. These three forms of analysis work together to understand the impact of the scholarship through multiple avenues. It discusses the potential costs and benefits incurred by the state, and then sees how much the recipients benefit based on their income. Finally, the holistic analysis serves as a reminder of the importance of basic humanity, and reiterates how the Excelsior scholarship is a program that helps fix or alleviate dire financial problems for its recipients.

I thought out an initial version of this thesis topic during the 2016 election campaign. In that campaign, Hillary Clinton advocated for a tuition relief program, similar to the Excelsior scholarship but for the entire nation. However, she lost the election, and the person who won, Donald J. Trump, did not indicate that he planned on trying to pass a bill to relieve tuition burdens. As a result, I found the interest to make a thesis analyzing higher education and a potential free tuition program, and outlined how I would do it. However, only a month after I had started, the Excelsior scholarship was announced. I realized that it would make more sense for the thesis to focus on that program instead of Hillary Clinton's tuition program, as the results would arguably have greater real world significance. As a result, the thesis shifted to analyze and explain higher education and the Excelsior scholarship.

There are a few reasons that this topic is significant for today's society. Firstly, the Excelsior scholarship is being phased in right now, and its long term success will be largely based on the results of the analysis in this thesis. In addition, the Excelsior scholarship was passed by Governor Andrew Cuomo with the intention of serving to aid lower income and middle income students. It is essential to analyze the veracity of that statement, through the section detailing the distributional consequences analysis. It is important to make sure that a program using taxpayer money actually serves its stated purpose, and also to ensure that a program like the Excelsior scholarship isn't primarily helping the wealthy. Additionally, the future of the tuition free debate in American politics largely hinges on the success of the Excelsior scholarship. If the program succeeds for New York, it will be far easier for a politician in the future to propose a similar program for another state, or even for the entire United States. This thesis provides some insight into whether or not the scholarship will be successful, and also helps define what the parameters for the program being successful are. As such, the results of this SPROJ could be used both to provide the state government with information to help fine tune the Excelsior scholarship and, based on the results of the research, provide the scholarship and the idea of government funded tuition relief more credence.

Finally, this thesis tries to provide an analysis of the scholarship that differs from a majority of the literature about free tuition and the Excelsior scholarship. It does this to an extent with the distributional consequences analysis. While the analysis is limited, and based off of estimation, it tackles the issue with what income level students are actually receiving benefits from the program. I was unable to find any academic literature about this, which was extremely surprising, since the program has been openly touted by the state of New York as targeting low

and medium income households. As a result, this analysis could serve as a reference, both for someone looking to do a more detailed distributional consequences analysis and for a variety of groups looking to advocate for tuition free programs. The final section before the conclusion, about the holistic analysis, gives a completely different perspective, and also questions the current nature between the field of economics and issues like morality and humanity. This analysis gives the thesis a unique aspect to it, thus potentially adding a different perspective to the current debate about both the scholarship and free tuition. Currently, these debates have largely focused on funding, and the direct impact to both people's employment and the state budget. However, this holistic analysis could help change or expand the current debate. As mentioned earlier, the section identifies the importance of basic human decency in government, but it also highlights the importance of considering the non-financial benefits that may happen as a result of the program. Things like happiness, comfort, and satisfaction with life don't have a direct numeric value, but absolutely must be considered when analyzing the costs and benefits of any program. By reframing the debate to include these ideas, it is far more likely that an economist in the future develops a more in depth analysis using these varied criteria by estimating the numeric value of these non-numeric but essential factors.

The findings of the distributional consequences analysis show the Excelsior scholarship as flawed. The program will largely help middle class households, but may not be as effective in helping low income households. Due to the nature of low income household's specific financial needs in regards to attending college, the scholarship will not benefit them nearly as much as it benefits the middle class. This doesn't quite hold up to the state's claim that it helps low income households and middle income households primarily, but it is not entirely regressive. Low

income households typically have a lower tuition barrier to attending college than middle and high income households, and the scholarship only covers tuition fees. As a result, the actual expenses that low income households have (books, housing, food, etc.) will not be alleviated by the scholarship. These findings also help show why the distributional consequences analysis was more effective than the cost benefit analysis in critiquing the Excelsior scholarship. A cost benefit analysis would have been largely focused on the perceived costs and benefits to the state, instead of attempting to identify if the people who need this scholarship the most actually get benefit from it.

## **Chapter 2: Evaluation Of American Higher Education and Financial Aid**

### **Overview**

This chapter serves to describe the various aspects of a higher education system in the United States that is widely viewed as faulty. This thesis is centered on an evaluation of free tuition programs, with specific focus given to the Excelsior scholarship in New York. The purpose of this chapter is thus to provide an understanding of the system that programs like the Excelsior scholarship seek to remedy. The first section describes what the American higher educational system is, providing information about the types of higher education institutions in America, along with a description with how they work. The subsequent sections serve to describe the issues that many Americans face with accessing education. After describing the difficulties with access, information is given about why students still choose to pursue a higher education. Finally, the chapter closes with an overview of the issues that student debt poses to many Americans. These descriptions and explanations given in this chapter attempt to give a clear framework of the issues currently existing with the American higher educational system, and specifically in regards to the issues that various free tuition proposals have aimed to alleviate.

## 2.1 What is Higher Education?



*Image obtained from [www.americancollegespain.com](http://www.americancollegespain.com)*

The American higher education system is unique amongst the higher education systems of other nations. There are many different classifications for the higher education systems in America. These include private and public institutions, 2 year and 4 year institutions, liberal arts colleges and universities, nonprofit institutions and for profit institutions, and many others. The issue of lack of accessibility to higher institutions is one that has many unique problems, often based on the particular form of institution is in question.

Private institutions are defined by the informational website Peterson's as "*an independent school that sets its own policies and goals, and is privately funded. Private colleges are generally smaller than public or private universities. The average enrollment at private*

*colleges is only 1,900 students. Private universities, by contrast, can have over 30,000 students.”*

(Peterson’s Staff, 2015) Private colleges tend to be more expensive than public colleges, but also have many benefits to them. For one, a majority of the elite institutions in America are private; in addition to this, as mentioned in the quote, they often have smaller class sizes, allowing students to have more access to their professors. Private institutions also often provide better facilities to students, due to a lower reliance on federal and state funding. On the other hand, public institutions are generally defined as institutions that are funded by national or subnational governments. These institutions tend to be larger, as their primary purpose is providing an education to as many students as possible. As a result, public higher education institutions often have large class sizes, providing less access for students with professors. These schools generally provide lower costs of tuition for students who live in-state, and are often affiliated with public high schools. The funding for private universities is almost entirely from tuition, donations, and an endowment fund. An endowment fund is a fund with the sole purpose of being invested, often donated to schools and managed by administration. There is a percentage cap on how much of the endowment the school can use for expenditures, typically around 5%. (Peterson’s staff, 2017) The funding for Public universities generally tends to come from the state. For the most part, state funding provides the schools with enough money to manage their expenses, allowing lower tuition rates to be offered to students.

In addition to being privately and publicly funded, higher education institutions can be either 2 years or 4 years. A 2 year institution, often referred to as “community college”, generally provides a certification of completion within 2 years. This is known as an associate’s degree, though sometimes students move on to a 4 year institution and transfer their credits from the 2

year institution. A 4 year institution, on the other hand, typically requires 4 years to finish, and provides its graduates with a Bachelor's degree. A 2 year institution is often cheaper than a 4 year institution, with a College Board report showing that the average cost of tuition at American 2 year colleges is \$3,520. (*College Board*) In comparison, the average in state tuition for a public 4 year college is \$9650, with out of state tuition at \$24,930, and with private 4 year college tuition at \$33,480. Thus, there are advantages in attending both forms of institutions. 2 year colleges save money, but often offer less class mobility than 4 year institutions. This is because an associate's degree is not considered as valuable as a Bachelor's degree. However, attending a 2 year college is often a cheaper way of getting a Bachelor's degree, i.e. transferring after two years. This strategy also allows students who performed poorly in high school a second chance to get into a good 4 year institution, through an improved performance in a 2 year college. On the other hand, 4 year institutions cost more, but allow greater class mobility, and also offer many more resources to their students. In addition, most graduate school programs require a Bachelor's degree.

To further understand the details of American higher education, it's important to learn the difference between the various types of schools. The two main examples analyzed here are liberal arts colleges and universities. The decision between which one of these to attend is generally based on a student's academic interests. A liberal arts college is defined as a 4 year institution that provides education based on liberal arts, generally in either the humanities, the arts, or the sciences. The New Jersey Office of the Secretary of Higher Education defines a college as a postsecondary educational institution that provides instruction beyond the 12th grade level in programs that satisfy the requirements for a degree at the associate, baccalaureate or



graduate level. The same report defines a university as an institution that offers full undergraduate and graduate programs. As a result, an accredited university generally is comprised of multiple colleges. (*New Jersey Secretary of Higher Education, 2016*)

## 2.2 Difficulties in Accessing Higher Education



*Image obtained from [www.politifact.com](http://www.politifact.com)*

To properly analyze the potential of a policy that provides public higher education to all in state student's tuition free, it is essential to examine literature that highlights the problems with the current higher education tuition system. Currently, there are a number of different ways that aid is given out. Grants refer to amounts of money given out each year to students to cover their tuition. These grants are need based, and given out by either the federal government, private individuals or organizations, or NGO's to students based on a rough approximation their family can afford to pay based on their household income and necessary expenses. Scholarships similarly refer to amounts of money given out to students to help them cover their tuitions, but are merit based. This means that they are only given out to students that meet certain academic and/or extracurricular activities. Unlike grants, many scholarships are open for anyone to apply

for. Student loans are loans given out, generally by private banks, private financial institutions and the federal government. A key point of student loans that differentiates them from other forms of aid is that the student is obligated to pay them back after finishing their education. Unlike other forms of loans, i.e. a home loan, a car loan, or a general loan given out for expenses, these loans are regulated extensively to ensure students don't get burdened with interest rates and immediate payments. The interest rates are generally capped, and many student loans offer students a grace period before paying them back. Finally, tax subsidies are a form of financial aid in which people, generally below a certain income threshold, can deduct any income they pay towards college tuition from their taxable income. Tax subsidies, unlike the other three forms of financial aid, don't actually provide students with money to help them pay their tuition. Instead, the goal of these subsidies is to reduce the burden of the tuition paid by the student or his family by allowing them to recover a portion of that tuition amount in what would have otherwise been sent out in the form of tax payments. These forms of aid are all generally given out in some form of combination to minimize the impact of the high tuition costs that many students face.

The tuition costs in the United States have, since the late 1970's, grown at a faster rate than any other expense. The astronomical increase in cost has led to many programs, organizations, and funds dedicated to helping students be able to cover these increased costs. The table below shows the rise in both college tuition and college tuition in addition to room and board over the last 35 years.

|         | Tuition and Fees in 2016 Dollars |                       |                     |                       |                    |                       | Tuition and Fees and Room and Board in 2016 Dollars |                       |                     |                       |
|---------|----------------------------------|-----------------------|---------------------|-----------------------|--------------------|-----------------------|---|-----------------------|---------------------|-----------------------|
|         | Private Nonprofit<br>Four-Year   | Five-Year<br>% Change | Public<br>Four-Year | Five-Year<br>% Change | Public<br>Two-Year | Five-Year<br>% Change | Private Nonprofit<br>Four-Year                      | Five-Year<br>% Change | Public<br>Four-Year | Five-Year<br>% Change |
| 1976-77 | \$10,680                         |                       | \$2,600             |                       | \$1,190            |                       | \$16,760  |                       | \$8,160             |                       |
| 1981-82 | \$10,810                         | 1%                    | \$2,390             | -8%                   | \$1,140            | -4%                   | \$16,630  | -1%                   | \$7,540             | -8%                   |
| 1986-87 | \$14,630                         | 35%                   | \$3,110             | 30%                   | \$1,450            | 27%                   | \$21,650  | 30%                   | \$8,900             | 18%                   |
| 1991-92 | \$17,340                         | 19%                   | \$3,720             | 20%                   | \$2,070            | 43%                   | \$25,070  | 16%                   | \$9,630             | 8%                    |
| 1996-97 | \$19,920                         | 15%                   | \$4,560             | 23%                   | \$2,250            | 9%                    | \$28,140  | 12%                   | \$10,950            | 14%                   |
| 2001-02 | \$23,560                         | 18%                   | \$5,110             | 12%                   | \$2,160            | -3%                   | \$32,340  | 15%                   | \$12,250            | 12%                   |
| 2006-07 | \$26,380                         | 12%                   | \$6,860             | 34%                   | \$2,680            | 23%                   | \$36,060  | 12%                   | \$15,180            | 24%                   |
| 2011-12 | \$29,700                         | 13%                   | \$8,820             | 29%                   | \$3,170            | 18%                   | \$40,450  | 12%                   | \$18,270            | 20%                   |
| 2016-17 | \$33,480                         | 13%                   | \$9,650             | 9%                    | \$3,520            | 11%                   | \$45,370  | 12%                   | \$20,090            | 10%                   |

Table obtained from <https://trends.collegeboard.org>

The biggest change, at 35%, between 1981 and 1987, occurred at the time period widely considered as the catalyst of the tuition boom in American higher education. The 1% change between 1976 and 1981 is a rate of change that was typical of college tuition increases prior to the boom. Following the catalyst time period, tuitions increasing rate began to drop and, based on the trends so far, seems to have flat lined at 12-13% every 5 years. This tuition increase comes out to about 3.57% per year from 1981-2017. In contrast, the United States **GDP per capita** rose by only 1.795% from 1981-2015 (*The World Bank*). The fact that tuition costs increases have risen by double the amount that the Gross Domestic Product (GDP) per capita is indicative of a price hike that the consumers are growing less and less able to pay for on average. As of 2017, total student loan debt stands at \$1.41 Trillion (*Federal Reserve*), with 44.2 million Americans currently with student debt (*Federal Reserve Bank of New York*). Perhaps a statistic more shocking is the following; 11.2% of student loan debt holders are delinquent, which means that they have either not made a payment in 90 days or have defaulted on the loan. The statistics

above serve to show a system that has not worked. The costs have become more and more difficult for Americans to bear.

The Federal Reserve provides a detailed list of information, statistics, and facts on their website. However, there is also literature available on the Federal Reserve website that expands upon the problems faced by people today with access to education. The particular article being quoted is a lengthy article that examines the impact of student loans, and, in particular, the issue with both the risk of default on current student loans and the administration of private student loans. The following quote is a summary of an analysis the writers carried out, in which they measured the relationship between family income and the reliance on student loans:

The model predicts that poor individuals (in the bottom tercile of family contributions) need to borrow much more than wealthy individuals. Notice that students in the top one third of family contributions do not borrow from the private market and borrow little from the government. However, low- and middle-income students rely on both the government and the private student loan market. Poor individuals take on the most student loan debt (approximately \$16,758 in both markets, on average). Recall that these individuals experience relatively low returns to college investment given a positive correlation between ability and income, and between ability and earnings. The combination of high student loan indebtedness and low lifetime earnings leads to high default rates for this group, as Table 4 shows.  
*(Ionescu and Simpson, 2014)*

As evidenced by this analysis, the amount taken out in the form of student loans is largely based on income. The higher the income bracket, the less the students are in need to take out student loans. In addition, the analysis points out that low income students not only need to, on average, take out the most student loans, they also experience relatively low returns from their college investment, in comparison with their higher income bracket peers. *(Smith, 2017)* These facts couple together and leave the poor students unable to pay off their loans, and the combination of

having the highest amounts of debt and the lowest lifetime earnings leads this income group to default at the highest rate amongst the three income brackets (high, medium, low). However, an additional troubling fact about the student loan system is the reveal of how dependent low ability individuals are on credit. This dependency on credit affects their decision making, and also often leads to them being forced to make less than optimal decisions due to their poor credit. This is explained in further detail in the following quote;

However, default in the private market triggers exclusion from borrowing in the unsecured credit market. For low-ability borrowers, access to credit markets is quite valuable. For them, the negative impact on credit risk resulting from defaulting on private student loans is costly and the difference between the disutility levels from defaulting in the two markets is not large enough to compensate for less access to credit. As a result, low-ability individuals would rather default on government loans than private loans.”

*(Ionescu and Simpson, 2014)*

The differences in default rates indicate the reliance that low ability individuals have on credit forces them to default instead on Federal loans, while paying their private loans to avoid having a hit on their credit. Credit continues to play a role beyond its impact on loan defaults. Ionescu and Simpson found that 53.7% of those with bad credit enroll in college, while 69.6% of those with good credit enroll in college. This 16% gap shows how students who arguably are more in need of a college education to improve their financial condition (bad credit agents) are enrolling significantly less than those who arguably are not in as much of a need of a college education to improve their financial condition (good credit agents). This was attributed to the fact that students from families that contribute relatively more to tuition payments are correlated with both increased enrollment rates and higher credit, along with the fact that default penalties

are more likely to scare away low credit borrowers of student loans than high credit borrowers of student loans. These facts help highlight what is wrong with the higher education tuition system today; students who need a college degree the most to improve their financial conditions are being scared away by the loan system, out of fear that the relatively smaller returns they receive from college won't allow them to pay off their loans. An educational system which scares away the people most in need of it due to financial reasons is not one that is working accurately.

### 2.3 Reasons Students Still Choose To Attend Higher Education



Image obtained from [www.ocalamagazine.com](http://www.ocalamagazine.com)

With the difficulties in accessing a higher education highlighted, the question remains as to why a student would choose to attend college. The reasons for a student's decision to attend and persist through a college education is complex, not merely financial but certainly largely so. A college education statistically provides students with an increased chance of class mobility. Even with the hurdles towards attending a higher education institution, it is generally agreed that the decision to attend is one that reaps rewards. This is highlighted through the following quote:

*"For example, children whose parents are in the top 1% of the income distribution are 77 times more likely to attend an Ivy League college than those whose parents are in the bottom income quintile. Second, children from low and high-income families have very similar earnings outcomes conditional on the college they attend, indicating that there is little mismatch of low socioeconomic status students to selective colleges. Third, upward mobility rates – measured, for instance, by the fraction of students who come from families in the bottom income quintile and*



*reach the top quintile – vary substantially across colleges. Much of this variation is driven by differences in the fraction of students from low-income families across colleges whose students have similar earnings outcomes.” (Chetty et. al 2017)* From this quote, it is evident that the issues of inequality with a college education are largely based on the ability to obtain one, as opposed to the results of having obtained one. Students from low income households are much less able to attend higher education institutions, but find themselves on an even playing field with high income students once they’ve attained a college degree. This is the main reason why a student would choose to attend college despite the hurdles they may face in obtaining the education.

As seen above, it is almost always more beneficial for a student to attend college than to not attend college. If the hurdles that face a low income student can be overcome, they are poised to have a much higher chance of gaining class mobility. However, there is a counter argument to this. It is often considered that a student’s decisions to attend college are entirely financial. This, however, is not always the case. The more complex nature of decisions to attend college is highlighted by an economist named Karen Leppell. She defines the notion of an intertemporal budget constraint, which essentially serves as a cost benefit analysis of a student’s decision to attend college.

“I make the assumption that students decide to attend or persist at college by maximizing the present value of the stream of current and future utility, subject to an intertemporal budget constraint. In other words, the student compares the satisfaction that he or she expects to obtain from attending persisting in college with the satisfaction he or she expects from nonattendance/dropping out. This satisfaction is based partly on the college experience and partly on life following college. While the student considers future satisfaction, he or she gives it less weight than current satisfaction.

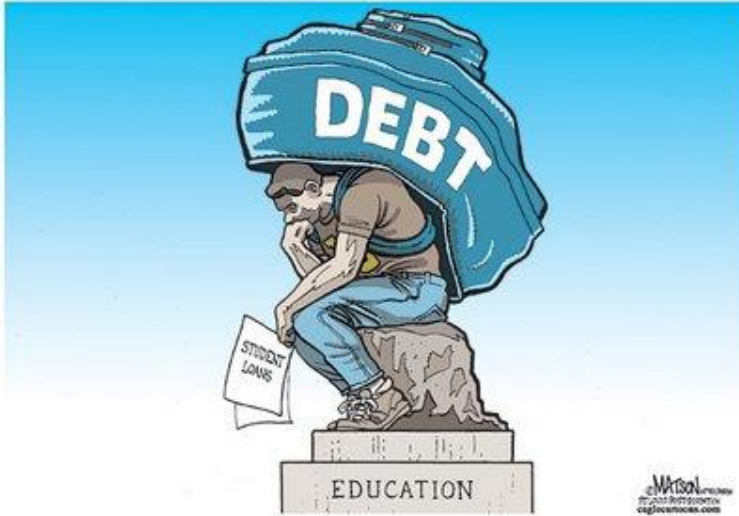
Students who attend college generally expect to obtain better jobs than they would obtain without attending college.  
*(Leppell, 2002)*

What the intertemporal budget constraint highlights in a student's decision to go to college is that they, entirely in her test but still prevalently in the real world, make the decision to go to college based on 1) the utility in their part on attaining the degree in regards to self-perception of capability 2) using the previous utility to determine if the benefit of attending college will outweigh the costs, i.e. by way of an increase that is greater than any debts they incur and 3) the growth they see for themselves in the future, often in the case of older students due to their lower remaining years in the work force. This is the key component of understanding how to properly analyse the impact of financial aid on student's decisions to attend college. Instead of merely looking at the ways loans and tax subsidies affect the cost of college to students, it is important to remember that the cost, it is important to understand the unique nature of a student's decision to attend college.

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As the decision to attend college is one that is uniquely individual and not always financial, it is not always helpful to look at college admission through a financial angle. However, as shown by Chetty et. al earlier, the ability to attend college still plays a large role in solving income inequality. As such, while it is important to consider the holistic factors that go into a student's decision to attend college, the financial hurdles are still arguably the biggest factor for most potential applicants. As such, a form of aid mentioned earlier, student loans, is important to analyze, specifically with regards to its outcome: student debt.

## 2.4 Issues With Student Debt



*Image obtained from [blog.latism.org](http://blog.latism.org)*

Many students take out loans to pay for their college tuition. There is currently over \$1 trillion in student debt, held by over 40 million Americans. This has made student loans the largest form of household debt after mortgages (Dynarski, 2014). What this shows is that many students have identified student loans as a necessary burden in order to achieve an education. The staggering number of students in debt helps reinforce the point that, while other factors play into a student's decision to enroll besides money, a large portion of Americans nevertheless are influenced by financial factors, and the desperation to attain this education often leaves them in situations where they are in poor financial condition following graduation. There are many different aspects to student loans and student debt, ranging from the ease with which they can be accessed, to whether students are taking out an amount that is of optimal utility to them, and

even to the fact that the students are taking out far more in student loans than they should have to.

One of the main reasons that student debt is so high on the list of household debt is the ease by which it can be accessed. Unlike many other forms of loans, the federal government helps by offering out loans to students to attend. The reasoning for this is simple; the basis for a private institution to offer out loans is generally reliant on a form of collateral, as insurance for the loan. Along with collateral, a major loan (such as a home mortgage or car loan) is generally only given out by private institutions after an assessment of the borrower's income and credit history, to ensure the maximum chance of repayment. These institutions still give out loans as a form of investment, but collateral helps make this investment safer. Education, too, is a form of investment. However, most people who plan on attending college don't have much collateral to offer. Along with this fact, they generally don't have an income, and many times don't even have a credit history. This is because a higher education is an investment in future earnings. The loans given out are thus expected to be repaid based on the earnings the degree would have to offer, often providing increased risk for private institutions. In addition to these factors, a federal option for student loans helps minimize the severity of loan interest payments that can be enacted by private institutions. (*Dynarski, 2014*) In fact, it's not just America that has federal student loans; almost all developed nations offer these loans. Beyond the reasons stated above, there is the role of income accessibility that plays into federal student loans. As a student loan repayment is so heavily contingent on income post college, it often makes more sense for the loans to be handled federally, as the federal government has more access to a borrower's through the insight from the borrower's tax filings (*Dynarski and Scott-Clayton, 2013*). So, the federal government's

involvement gives more students access to student loans. The next question that comes up is the one about the nature of student loan borrowing rates. That is, are students borrowing too much, or too little?

An extensive study published in the *Journal of Economic Perspectives* showed a great deal of variation in trying to answer the question above. There were numerous factors that played in to how efficient students were borrowing loans to pay tuition. These factors included college persistence and potential.

The college persistence issue is a unique one that causes many legitimate problems in trying to analyze student borrowing rates. Currently, only 55% of dependents who pursue a BA degree actually obtain the degree within 6 years. In fact, 51.3% of students who anticipate getting a BA degree do not get one, and are still saddled with, on average, \$7,413 in debt. That number actually shoots up to \$14,457 if only the students who took loans out are considered. (Avery and Turner, 2012) As mentioned earlier, student loans are an investment contingent on the potential income earned from possessing a college degree, so students who have student debt without a degree are essentially a failed investment. However, despite these aberrations, the same cited above shows that student loan amounts haven't increased significantly in proportion with expected income. This is shown in the following quote:

*Leaving aside extreme cases, are student borrowing levels assumed by the majority of undergraduate students consistent with their capacity to repay these majority of undergraduate students consistent with their capacity to repay these loans? There is little evidence to suggest that the average burden of loan repayment loans? There is little evidence to suggest that the average burden of loan repayment relative to income has increased in recent years. The most commonly referenced relative to income has increased in recent years. The most commonly referenced benchmark is that*

*a repayment to gross income ratio of 8 percent, which is derived broadly from mortgage underwriting, is “manageable” while other analysis such as broadly from mortgage underwriting, is “manageable” while other analysis such as a 2003 GAO study set the benchmark at 10 percent. (Avery and Turner, 2012)*

It is also evidenced that the mean ratio between student loan payments and income has remained relatively constant, even though student loan amounts have been steadily increasing. This ratio is 9-11%, as evidenced by two major studies: *(Baum and Schwarz, 2006) (Baum and O'Malley, 2003)*. The question of whether students are borrowing an appropriate amount, however, goes beyond the changes in the ratio.

An important aspect of student's issues with taking out loans to pay tuition is the idea that they aren't borrowing enough. Discouragement with the idea of taking out a loan often leaves students in a worse financial situation than they otherwise would be, and often contributes to a student's decision to not complete a college education. In fact, it is estimated that one in six students who qualify for student loans choose not to take them *(Cadena and Keys, 2010)*. There are numerous reasons that this could be the case; one study indicates that students often do not wish to deal with the complexity and financial disclosure required from the FAFSA form *(Dynarski and Scott-Clayton, 2006)*. Another study shows that students often are cautious with gathering debt, even if it inconveniences their ability to attend college. This method of self-restraint is also hypothesized to be a way that students develop fiscal responsibility. *(Cadena and Keys, 2010)* One final theory builds off the relation with credit and student attendance discussed in 2.2; it is suggested that students with credit card debt tend to avoid incurring further debt through the form of student loans. *(Avery and Turner, 2012)* All of these decisions made by students to avoid incurring student debt are indicative of the sheer

financial strain that college tuition rates have on students, whether it is through loan debt or the direct avoidance of loan debt.

The conclusive report from the study in the *Journal of Economic Perspectives* shows that, contrary to much of the coverage around a “student debt crisis”, there is largely still a great amount of benefit to attending college. The evidence shown, that the student debt payment to income ratio was relatively constant, helped reinforce this conclusion. However, the report did acknowledge the issues that come to play with students taking out loans. The exact recommendation was:

The natural advice for a high school graduate contemplating the economic consequences of investing in college is to estimate the probabilities of the long- consequences of investing in college is to estimate the probabilities of the long-term outcomes as precisely as possible. In particular, a student needs to focus on term outcomes as precisely as possible. In particular, a student needs to focus on the probability of degree completion, the earnings differences associated with the probability of degree completion, the earnings differences associated with different levels of degree completion, and the choice of a field of study. Although different levels of degree completion, and the choice of a field of study. Although self-knowledge is difficult, students can look at their own observed traits, and then self-knowledge is difficult, students can look at their own observed traits, and then at how students with similar traits have fared at the school they are planning to at how students with similar traits have fared at the school they are planning to attend. For example, those who begin their studies at community colleges and for- attend. For example, those who begin their studies at community colleges and for profit colleges have particularly low college completion rates and are unlikely to profit colleges have particularly low college completion rates and are unlikely to realize substantial earnings gains associated with degree completion. For students realize substantial earnings gains associated with degree completion. For students at for-profit institutions, the consequences of weak outcomes are compounded by for-profit institutions, the consequences of weak outcomes are compounded by high levels of borrowing; not surprisingly, these students are unusually likely to high levels of borrowing; not surprisingly, these students are unusually likely to default on loans.

(Avery and Turner, 2012)

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What seems to be evident is, due largely to the ease with which federal loans for tuition can be obtained, it is important that a student makes responsible decisions before deciding to take out a loan. The careful consideration is not always something a student is even equipped to make, and this leads to the issues with the current state of financial aid and college attendance right now.

What the study cited above, along with much of the other literature shown above, seems to indicate is that student's decision to attend college is largely tied to various financial restraints. Even with the access to federal loans, students have to consider their own financial condition (along with trying to estimate whether they'll even be able to pay off their loans) before committing to attending college. This is particularly evident amongst low income students, who have the most potential downside from incurring student debt, owing to them coming from the households with the least resources to pay for it. These are the students most in need of a college education, in order to elevate their income potential and escape the poverty trap. What is thus made clear is that the current system of education in America is not working, and an alternative needs to be proposed. One potential alternative is providing access to tuition free higher public education. What this would comprise of is funding of public institutions, both 2 year and 4 year, to be increased so as to allow students to attend these institutions without having to pay full tuition, provided that the student lives in state. Many countries have employed tuition free public education, and, in fact, New York recently passed a bill guaranteeing free in-state public tuition for all students from households making below \$125,000 a year (*New York State government programs, 2017*) Chapter 3 will provide an in depth analysis of the benefits and drawbacks of governments providing tuition free education.



## **Chapter 3: Details Of Current Tuition Free Higher Education**

### **Overview**

Chapter 2 focused on describing the American higher educational system, along with an overview of how financial aid works in America. With those details established, Chapter 3 will describe a few global policies that allow for free tuition. The New York Excelsior scholarship, passed in 2017, will be the focal point of the remaining thesis. However, in order to better understand how a tuition free program works, along with the benefits and potential costs that come with it, a few European countries that have had free public university tuition for the past few years will be discussed. The goal of this chapter is twofold. Firstly, both the Excelsior scholarship and the various tuition free laws in the other countries discussed serve to present government sponsored solutions to help citizens overcome difficult barriers to a comfortable life. While Chapter 2 focused on describing what these barriers are, Chapter 3 focuses on describing tuition free systems and how they reduce these barriers. The second goal of this chapter is to list fully analyze the drawback of free tuition programs. This is imperative to do before moving on to the analysis chapter, as the understanding of the costs and potential drawbacks/shortcomings of these free tuition programs will help the analyses to be able to draw from data and literature to arrive at likely conclusions of the Excelsior scholarship.

### 3.1 New York State Excelsior Project



*Image obtained from [www.auburnpub.com](http://www.auburnpub.com)*

A recently passed bill in New York provides the possibility of a possible connection with free tuition. In the spring of 2017, the state of New York passed a bill to start The Excelsior Scholarship. The Excelsior Scholarship provides residents of New York who have a family income of less than \$125,000 a year to receive free tuition in all 2 year and 4 year programs at schools in the State University of New York (SUNY) and City University of New York (CUNY) systems.

The program is being phased in over a 3 year period. For the 2017-2018 school year, the first year that the program is available, the eligible applicants must have a family income of \$100,000 or less. By the end of the phase in period, the program will apply to all families who

make under \$125,000 a year. It's worth noting, however, that the Excelsior program is a "last dollar" program (*Chen, New York Times, 2017*). What this means is that the program only covers the tuition balance not paid for by other scholarships and grants.

One of the key players in this development was the Governor of New York, Andrew Cuomo. Andrew Cuomo was elected as Governor in 2010, and won reelection in 2014. At the time the bill passed, Cuomo's office announced the following statement: "With this budget, New York has the nation's first accessible college program. It's a different model. Today, college is what high school was—it should always be an option even if you can't afford it. The Excelsior Scholarship will make college accessible to thousands of working and middle class students and shows the difference that government can make. There is no child who will go to sleep tonight and say, I have great dreams, but I don't believe I'll be able to get a college education because parents can't afford it. With this program, every child will have the opportunity that education provides."

*(New York State Governor Website, 2017)*

New York State predicts that 940,000 middle class families and other families making under \$125,000 a year would be able to attend all CUNY and SUNY schools for free. (*New York State Governor Website, 2017*) The Website goes on to list eligible applicants by region, as seen on the next page.

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| Region                  | Number of Families with College-Age Students | Percentage Eligible |
|-------------------------|--|---------------------|
| Western New York        | 68,712                                       | 78.8%               |
| New York City           | 461,499                                      | 84.3%               |
| Long Island             | 112,890                                      | 55.6%               |
| Hudson Valley           | 92,333                                       | 63%                 |
| Capital Region          | 44,108                                       | 74.9%               |
| Mohawk Valley           | 24,845                                       | 84.8%               |
| Finger Lakes            | 55,747                                       | 79.2%               |
| North Country           | 18,542                                       | 84.8%               |
| Central New York        | 37,922                                       | 79.6%               |
| Southern Tier           | 25,588                                       | 81.2%               |
| <b>Statewide Total:</b> | <b>942,186</b>                               | <b>75.7%</b>        |

*Data obtained from New York State Governor's Website*

The table above shows the distribution of the population eligible for the program, with a statewide total of 75.7%. Nearly half of these families reside in New York City, and well over half of the families reside in the New York metropolitan area (New York City, Long Island, and lower Hudson Valley).

### 3.2: Criticism of The Excelsior Project



*Image obtained from www.twitter.com*

While the Excelsior Project is projected by the state government to provide extensive benefit to the middle class, there have been numerous criticisms made about the program. These include criticisms of the issues it doesn't address (addressed later), the impact it will have on colleges, and the impact it will have on education. Many of these criticisms are an extension on the general criticism of free tuition, which will be covered more in depth later in the chapter. However, some of these criticisms are unique to New York, both in terms of residents and institutions.

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One major criticism of the Excelsior Project is the impact that it would have on private higher educational institutions, particularly smaller, less selective schools.

A recent study by [CICU](#)<sup>1</sup> estimated that median enrollment at private colleges and universities in the state would decline by 11 percent and their revenues shrink by \$1.4 billion as a result of the Excelsior Scholarship program. Unlike the few well-endowed New York institutions that can afford to provide need-blind financial support to students, if your institution is less selective and more dependent on tuition you may see your applicant pool decrease significantly as families choose the Excelsior Scholarship route rather than the mix of grants and loans that most private institutions offer. Furthermore, since many middle-income students qualify for Federal or other New York state assistance such as the Tuition Assistance Program and Pell grants, you will lose this cash flow as well, even if you were already discounting your tuition for these applicants. And if you do accept the \$3,000 Excelsior Scholarship aid available to students attending private institutions, you will be required to match it with \$3,000 from your own funds and freeze tuition for the period that the student receives that aid.

*(Jarvis, Common Fund, 2017)*

As seen from this quote, there will likely be a significant financial impact on private colleges and universities in the state of New York because of a drop in applicants. Private colleges that aren't renowned typically have small endowments, and, as Jarvis explains, rely more on tuition. As a result, the drop in applicants could result in a drop in tuition for these institutions, which could end up causing some smaller private institutions to face financial problems.

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<sup>1</sup> Commission on Independent Colleges and Universities

### 3.3 Free Tuition In Other Countries



*Image obtained from [www.credila.info](http://www.credila.info)*

While this project serves to analyze the impact of free tuition in the United States, the closest thing that exists to a direct example is New York's Excelsior Scholarship. That Scholarship is not a perfect representation of what free public university tuition would look like, but has a high enough degree of similarity that it serves as a decent model. However, there are other countries in the world that offer free public university tuition, with none of the strings and limits of the New York Excelsior Scholarship. As such, even though these countries have a very different economic, political, and social situation than the United States, their educational systems are still worth looking.

The first example, and arguably the most prominent of nations that offer free public university tuition, is Germany. Student tuition in Germany is covered entirely by the federal

government. The government covers an undergraduate degree that comes out to, on average, \$32,000 per student. (*Carapezz and Noe-Payne, 2015*) This tuition cost is far lower than American college tuition, with many schools costing that much or more for a single year of tuition.

The results of this program have so far been positive, but not solely due to the tuition. The comparison of the quality of young people in Germany and young people in America is shown in the following quote:

Both workers and the economy suffer due to this lack of structure to help young people enter the workforce. A recent report by an association of human resource officers called the school-to-work transition a “long, painful process,” noting, “(many) employers are reluctant to hire recent college graduates because so many fail at their first, second, and even third jobs.” Employers struggle to fill 5.5 million jobs nationwide, hindering overall economic growth. By contrast, countries like Germany pursue a “dual educational” model that blends classroom education with on-the-job training through apprenticeships, equipping young people not bound for university with practical labor-market skills. From the beginning of the journey from school to work, dual-system participants establish close relationships with employers. Companies sign contracts with young people (typically around age 15 or 16) and provide them an hourly wage just below that of an entry-level worker. On-the-job training typically comprises two-thirds of the curriculum in the dual system.  
(*Parilla and Ross, 2016*)

What this quote shows is that Germany has made college more accessible to its young citizens, but this is not the only reason for an improvement in the standard of life of its young population. Germany also focuses on career development for its college students, through what they describe as a dual educational model. By introducing their students to various apprenticeships and job opportunities, the students end up graduating with a relevant work skill



set. In addition, this program helps students with one aspect of free tuition which Germany, and other nations that provide free tuition, get criticized for.

It is often argued that free tuition programs, by only covering tuition and not cost of living, are making college difficult for many lower income households. The argument states that a program like that mainly helps the middle to upper class students, as they can comfortably afford to pay for their own housing and food but may have not been able to comfortably pay their tuition. Low income students, however, often lack the disposable income to even pay the minimal housing costs. This could be alleviated if a student goes to school near their home; however, this limits the opportunities the student has, and could even limit what they could study. If, for example, a student wanted to major in Business Administration, but there was no school in their home vicinity that offered this major, they would have to either pay the housing and food costs of a school in another region or they would have to change their major. However, the dual educational model allows these students to earn income while they are receiving their education. These incomes may not entirely cover their costs, but it would considerably ease the burden of payment for low income students.

The natural criticism that arises when free tuition is discussed is the immense cost to the federal government. For this reason, Germany's methods of cost saving in universities and colleges is essential to the success of their tuition free education. The first major cost saving was already mentioned earlier, which is their lower cost of tuition. On average, their tuition comes out to \$8000 a year. (*Carapezz and Noe-Payne, 2015*) However, the German educational institutions also carry out numerous plans to keep their costs low, to ease the burden of their

tuition free program for the government and to thus keep it viable in the long run. Frieder Wolfe, a political science professor at University of Cologne, explains this in the following quote:

To limit spending, Wolf says, professors teach more and earn less than their American colleagues. "This is not to complain. I love my job and I have a lot of freedom but this is how we keep costs down — larger classrooms," Wolf says. "We've got courses with 40 participants, 50 participants in the social sciences, where [American universities] might have tutorials of four or five students."

And unlike their American counterparts, German universities have very little administrative bloat. "Many administrative tasks for which you would have specialized personnel in the States is done by the teachers and professors here," Wolf says.

*(Carapezz and Noe-Payne, 2015)*

The method that Germany uses to keep the federal costs low are two fold, and thus more effective than either a cost cut or tuition drop alone. Instead, by both keeping tuitions low and reducing staff and administration costs, they are able to provide an affordable service to their students which, coupled with their dual educational model, greatly helps these students' lives and careers. However, these limitations on costs do raise a number of criticisms.

One criticism of the German educational model is that they do not produce any elite institutions, on par with Harvard, Princeton, Cambridge, Oxford, etc. This statement is actually supported by Wolf, who states in the following quote:

Germany isn't widely known for having top-tier colleges like Harvard, Yale and Princeton. But, says Wolf, what it does have is "reliable quality. With all due respect, [America has] the best colleges but [it also has] some of the worst," Wolf says. "There's probably a new sort of class divide between people who get there and who don't get

there, where as in Germany basically most everybody who wants to go to an average college can go there and get a decent education.  
(*Carapezz and Noe-Payne, 2015*)

As evidenced from the quote above, the reasons for this criticism of the model of education in Germany is a different set of goals between the German educational system and the American educational system. Whereas the United States has schools that emphasize how elite and prestigious they are, and many other schools simply attempt to attract students who couldn't get into their first choice of school, Germany's system attempts to provide competent, fulfilling education to any student who desires it. What is interesting to note is that, even if there were free tuition for public institutions in the United States, the quality divide that drives their educational system would still be present. There would still be Harvard, Princeton, and Stanford, which would still be considered a more prestigious school to receive a degree from than most public institutions.

### **Finland**

Another nation notable for providing free tuition is Finland. Finland serves as another example of a successful nation which has eliminated a large bulk of the expenditure typically associated with college education. In fact, until recently, a majority of Scandinavian nations offered free tuition for all students. However, Denmark started charging tuition for international students in 2006, and Switzerland started charging tuition for international students in 2011. (Valimaa, 2015) The reason for Finland's decision to do so are multifold.

Finland has an active, and influential student organizations, which have long advocated against tuition for any students, including international students. The nature of student unions in Finland is a unique one. Unlike in many other countries, these unions are extremely powerful, and factor heavily into political decision making. This is explained in the following quote.

The third group of respondents, the student union, holds a unique position in the history of Finland and the tuition fee debate. They represent a collective group of actors in the opposition movement against tuition fees (incumbents). Student unions have a long history. In this study, the term “student union” refers to both the SYL<sup>2</sup> and the individual HEI<sup>3</sup> student unions. On student unions maintaining a strong voice in the national HEI policy arena: “Student unions are very powerful and when they lobby they have a heavy impact within each political party” (National Level). The National Union of University Students in Finland (SYL) was founded a few years after Finland’s independence in 1921 by the Helsinki University and Åbo Akademi student unions (Suomen Ylioppilaskuntien Liitto, 2012). Through the years both the SYL and the HEI student unions have been instrumental in advocating for continued student welfare (health insurance, housing, and grants for domestic students). Over the years the student union has become professionalized as the organizational structure models after the Finnish parliament with some elected members and other members acting as employees who are paid as full-time staff members. The student union culture reinvents itself as many representatives graduate to become leaders in the national government and the corporate world, thus paying the same respect to upcoming student union representatives. In a way, the student union is a national breeding ground for future politicians, government officials, and industry leaders.

*(Weimer, 2012)*

As shown by the excerpt from Weimer’s article, the Finland student organizations strongly opposed charging tuition for international students. They viewed the possibility of

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<sup>2</sup> National Union of University Students in Finland

<sup>3</sup> Higher Education Institution

tuition for international students as just a step towards charging Finnish students as well. The reasons that Finland strongly opposes any form of tuition is in line with many progressive ideals. The University of East Finland's website describes the views of education in Finland as "a fundamental right" and states that "the Finnish education policy emphasizes equal opportunities for all." (*Why is education in Finland free, University of Eastern Finland, 2014*) As such, the view on higher education in Finland is similar to the view on higher education in Germany; they believe it is something that should be accessible to anyone who desires a college education.

In addition to offering free tuition, Finland is also known for their high quality of education. This isn't exclusive to their higher education system; the following quote describes their education system as a whole:

The transformation of the Finns' education system began some 40 years ago as the key propellant of the country's economic recovery plan. Educators had little idea it was so successful until 2000, when the first results from the Programmed for International Student Assessment (PISA), a standardized test given to 15-year-olds in more than 40 global venues, revealed Finnish youth to be the best young readers in the world. Three years later, they led in math. By 2006, Finland was first out of 57 countries (and a few cities) in science. In the 2009 PISA scores released last year, the nation came in second in science, third in reading and sixth in math among nearly half a million students worldwide.

*(Hancock, 2011)*

As seen here, Finland recognized the importance of education in economic recovery, and they prioritized it from an early age. This carries on in their higher education system. Finland has managed to make their higher education system both high quality and accessible. Unlike

Germany, Finland not only prides itself on the accessibility of its education, but also on the elite nature of many of their universities.

The access to education in Finland is just one facet of a federal spending system designed to ensure a high quality of life for the nation's citizens. In addition to this, Finland spends extensively to ensure free healthcare for its citizens, and even spends a sizeable amount of money to ensure high quality recreational services, like parks, both through playgrounds and national parks. In addition to all of this, Finland is currently in the process of incorporating a Universal Basic Income system. At the moment, it is being tested as a policy on 2000 unemployed people. Each of these people receive €560 a month from the government, as the federal government attempts to determine how effective a Universal Basic Income would be in further improving the quality of life for the population of Finland. As evidenced above, the free tuition that Finland offers is only one portion of an active government quest to improve the quality of life of their residents. In fact, in the 2016 World Happiness Index, Finland ranked fifth, only behind Norway, Denmark, Iceland, and Sweden. (*Hallowell, 2017*) Interestingly, all four of the countries that rank ahead of Finland also provide their own versions of free tuition.

### **Other Countries That Provide Free Tuition**

As discussed above, a number of countries other than Finland provide free tuition, and have seen the same World Happiness Index success as Finland.

Norway allows for its residents to not pay tuition at public colleges and universities. However, they still have to pay for their own housing, along with a fee every semester of 300-600 Norwegian Krone, or the equivalent of \$33 to \$73. (*Tuition Section, Study in Norway Website*) In Denmark, tuition is free at all public higher educational institutions for all citizens of the EU and Switzerland. In addition, non-citizens who are residents of Denmark can also take advantage of this free tuition. For those who don't qualify for the free tuition, the cost of yearly tuition at Denmark public colleges and universities ranges from 6,000-16,000 euros, or \$7,043-\$18,783. (*Tuition and Fees Section, Study in Denmark Website*)

Meanwhile, in Iceland, there are no tuition fees for public colleges and universities. However, students do have to pay their own housing costs, along with a registration fee that ranges from 100-250 Euros, or \$117-\$293. In Iceland, private universities do charge tuition, but they typically subsidize their tuition for EU residents. EU residents pay an estimated 30-60 Euros, or \$35-\$70, per credit, while non EU residents pay 100-150 Euros, or \$117-\$176 per credit. (*Study in Iceland Section, Study In Europe Website*) Finally, in Sweden, tuition at public colleges and universities is free. However, Sweden stands out from the rest of the top 5 nations on the World Happiness Index, owing to the high rate of student debt in Sweden. Despite the fact that a majority of the residents are not paying any tuition, the average student debt in 2013 was listed as \$19,000. This is significantly higher than the other European nations that offer free tuition, and is only a little bit less than the United States, which has an average student debt of \$24,800. (Philips, 2013) To consider why Sweden has high levels of student debt, despite charging no tuition, requires an understanding of the drawback of many free tuition policies.

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### 3.4: Potential Drawbacks



*Image obtained from politics.blogs.ajc.com*

The benefits of free tuition, based both on economic analysis and from a study of foreign implementation of the policy, has been covered in depth so far. However, there are also many critiques of the implementation of free tuition in the United States. As seen in the previous section, even nations with free college tuition can have student debt issues. Before delving further into analysis models of the Excelsior scholarship, it's important to understand the potential drawbacks and criticism of the model. These will be discussed to an extent in this section, and then elaborated upon in the Costs Benefits Analysis description in Chapter 4.

One of the central criticisms of a tuition free higher educational system is the impact it has on the general tax paying population. To fund a tuition free higher educational system,



many critics believe it would be necessary to raise taxes on the general population. The

Washington University Public Review evaluates this problem in the following quote:

To quote a popular adage, “there ain’t no such thing as a free lunch.” Anytime the government offers something for “free,” taxpayers ultimately pay for it. This is an important concept that is oftentimes lost in the mix of progressive rhetoric. That’s not to say that taxation can’t ever be justified to ease economic burden. Rather, we must remember that federal funds come from working Americans and, therefore, will have an effect on the lives of those taxed, as well as society as a whole.

*(Eichen, 2015)*

This quote gives a nuanced take on the criticism of the taxation theory, while still leaving it with credence. Tax hikes are frequently used as a scare tactic to discourage the implementation of government social policies. However, as stated by the Washington University Public Review, a tax increase can’t automatically be ruled out of any situation; rather, the benefits and drawbacks of implementing the policy (and thus raising tax rates) has to be evaluated before making a policy decision. The role of the government is to ensure the safety and quality of life of its citizens, and this often requires federal spending. Tax hikes do not always result from increases in government spending, with many government budgets being able to be adjusted to fit in addition expenditures if they’re important. Even in cases where there are tax hikes, these hikes are typically aimed at high income individuals, and are generally only employed when they are the only way to fund a program that provides a basic need to underprivileged citizens.

Another argument against tuition free education is the impact it would have on both student performance and student motivation. This argument is also explained by the Washington University Policy Review, as follows: “Yet taxation alone isn’t the core issue with the concept of “free education.” Rather, it’s the societal impact that comes as a result of students losing their own financial stake in their education. Students who pay for colleges certainly have a stake in their education. Due to the price of higher education, students would be remiss to float through college and slack off, lest they not receive a return on their investments. Even

families who pay for their children's education are incentivized to monitor their children's performance and hold them accountable. Making students and families less sensitive to costs in turn makes parents less invested in their child's education, and less likely to hold him or her accountable for poor performance. Free tuition essentially breeds indifference to a service families aren't paying for. Without some modicum of a financial stake in one's education, there is less incentive to be invested in one's studies and work hard.

*(Eichen, 2015)*

This argument points out how student performance is often tethered to their investment in their education. As such, the assumption made is that students with no investment in their education would perform worse, and this would negate the value of the college education. This assumption ignores the fact that the time and effort put into a college education also operate as sunk costs. In addition to this, a college tuition provides students with access to a greater earning potential. As such, it is reasonable to assume that the targeted demographic would work hard regardless of financial incentives. This was extrapolated upon in the class mobility review in Section 2. Even with no tuition due, a student would have the motivation to work hard to secure their career for the future. Whether or not a student is paying tuition, their college education is of little to no value to them until they graduate and receive a diploma. Thus, every semester a student stays in college, he is increasing his sunk cost, which is time and effort in this case. For a student to drop out of college, the student would be making their sunk costs go to waste. While most college students don't think about their decision making as rationally as an economist would describe, it is certainly reasonable to assume that a student would be averse to dropping out because they've already put time and effort into getting the degree, and they know they don't receive the benefit unless they finish college.

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Another argument against implementing free tuition is that this kind of policy doesn't address a lot of the major costs hurting students today. This is outlined in a point argued by Sara Goldrick-Rab, an educational policy professor at Temple University. She argues about the other costs that students struggle to pay outside of tuition, such as travel, food, boarding, books, and supplies. This argument is supported by *Hungry And Homeless in College*, a book that highlights the growing food insecurity of students on community college campuses. While community colleges are a different form of institution, a large portion of their attendance is filled by students who were unable to attend a 4 year institution, for reasons that could be financial, academic, or even geographic. As such, a study of students in these schools gives insight into the portion of the population that a scholarship like the Excelsior scholarship hope to help.

The criticisms that Goldrick-Rab makes of various forms of financial aid are incredibly important to consider when evaluating The Excelsior Scholarship. According to Goldrick-Rab, students with the most financial trouble are often in deep financial trouble in college, even when awards, grants, and loans cover their tuition. On top of incurring a sizeable amount of debt, a lot of these students hardly have the money required for their most basic expenses, like residency, food, and textbooks. In addition, the book explains some of the most pressing financial issues student continue to face today, despite the prevalence of financial aid and heavy loan borrowing. According to Goldrick-Rab's research, close to half of community college students were "housing insecure", which refers to the state of not being homeless but being unsure as to whether you'll be able to continue having a residence. Reasons for housing insecurity range from personal to financial, from students living with family or friends and not sure if they'll be allowed to do so to students living on their own and unsure of if they can pay their rent. Out of

the students surveyed, 13-14% were outright homeless. The study found a disparate separation between the housing and food insecurity rates of foster children and non-foster children. The study showed that 29% of former foster home youth were homeless, while only 13% of non-foster home children were homeless. Even more shocking is that 31-32% of students who were either food or housing insecure were receiving financial aid. The issue that seems to be identified is that the financial aid wasn't sufficient, or wasn't helping the student cover all their costs.

The worst example listed is with students who are parents. 63% of parenting students were estimated to be food insecure, and 14% were homeless. Tragically, only 5% of parenting students actually receive any child care assistance. While a lot of these parents are receiving financial aid for their tuition, and sometimes grants that help cover other costs, like books and even rent, a majority of them aren't receiving the resources required to adequately feed themselves and their child. (*Goldrick-Rab, 2017*) What the research from Goldrick-Rab really points out is that, often, aid and assistance with tuition payments isn't enough. College education is an expensive commitment, even without tuition, and programs like the Excelsior scholarship don't necessarily have an answer for these problems on their own. Unlike in America, the other countries with free tuition that were analyzed have robust welfare programs, which helps take care of the gaps that are left behind by financial aid.

This section will serve as the final section of Chapter 3. The following Chapter 4 will discuss various forms of analysis, specifically with regards to the Excelsior scholarship, and it will provide details about the benefits and costs of the program, along with identifying who receives the benefit. The conclusion of Chapter 3 leaves a few questions unanswered. The most

relevant of these questions is about Sweden's high student debt rate. The other 4 nations that provided free tuition for students have very low rates of student debt. This signifies that a tuition free program can often be helpful, but there are still issues that exist within these programs, specifically in the way they are rolled out and the degree to which they cover. The Excelsior scholarship is also a limited scholarship, not helping students with any cost of getting a college education other than tuition. As a result, the non-tuition factors that have caused Sweden's student debt rate to be so high could very well also play a role in limiting the effectiveness of the Excelsior scholarship. These could be similar to the same non tuition factors that affect Americans, such as housing, food, books, and any other fees associated with college attendance. However, despite the fact that factors other than tuition can impact student debt, the review of Germany and Finland, along with Norway, Denmark, and Iceland show countries where the government is investing in the quality of life in its citizens. Judging by the World Happiness Index, these investments appear to be paying off, perhaps not financially but certainly through the standard of living and happiness of these countries citizens. In fact, despite Sweden's debt rate, they still have one of the world's highest happiness score on the index. However, these countries high rankings on the World Happiness Index cannot be entirely attributed to their free tuition programs. It is very likely that the general policies that these countries governments enact provide a greater sense of comfort and satisfaction to their citizens. As a result, any discussion about a tuition free program can't be limited to a financial perspective, but will have to include the potential impact such a program could have on intangible benefits for a country, typically social in nature. Thus, Chapter 4 will also be required to discuss economic analysis that encompasses these non-financial factors.

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**Commented [12]:** be forthcoming and acknowledge that other factors play a role too (not just tuition-free education)

## **Chapter 4: Analysis of Excelsior Scholarship**

### **Overview**

While Chapter 3 focused on understanding the concept and implementation of free tuition, both with regards to the Excelsior scholarship and with other countries that have eliminated public university tuition, Chapter 4 focuses more on describing different forms of analyses that can be used to measure the Excelsior scholarship. These different kinds of analyses are described in detail, presenting a clear picture of what they entail. Following this, the existing data and literature used for this thesis will be drawn upon to make estimates as to the results of these forms of analyses. The first two analyses described are a Cost Benefit Analysis review and a Distributional Consequences Analysis review. However, as noted briefly in Chapter 3, the policies enacted by the 5 happiest nations seem to be geared directly towards improving the quality of life of the residents, with less attention paid to costs, debts, profits, and losses than most policies that get scrutinized here. As a result, the final section of this Chapter will discuss the importance of making economic analysis that also analyses the personal and social aspects of the economy. The goal of the first two sections is to fully lay out how the first two forms of analyses work, and to identify what would likely be the results from the tests. The goal of the final section is to emphasize and analyze the importance of non-financial factors in making a well-rounded economic analysis. The section will also attempt to tackle what the goal of an economist is, and discuss what their role in the social fabric should be.

#### 4.1 Cost Benefit Analysis Overview



*Image obtained from [www.linkedin.com](http://www.linkedin.com)*

The myriad of factors that play into a tuition free public education have been discussed above, from the excelsior scholarship to tuition structures in other countries. However, to fully get a grasp of the potential impact of a free tuition system in the United States, a cost benefit analysis must be carried out. A cost benefit analysis is a form of analysis that helps determine the positive and negative impact of a certain decision. In regards to policy making, a cost benefit analysis is carried out to both identify the positive and negative impacts of a policy proposal and also to tweak the proposal such that the positive aspects are maximized and the negative aspects are minimized in impact. While this thesis will not be carrying out an official cost benefit analysis, for reasons explained below, this section will focus on describing the process of carrying out a cost benefit analysis and then evaluate a potential list of costs and benefits.

The details above highlight the steps involved in carrying out a cost benefit analysis. The next step is to elaborate on potential costs and benefits that may be associated with the Excelsior scholarship. The assumptions made are derived from the literature used through the thesis. While this won't be as effective as the results of an actual cost benefit analysis, it will still give framework to understand the good and the bad aspects of the Excelsior scholarship. After these potential costs and benefits are discussed, section 4.1 will conclude with an explanation of why I chose to not go forward with a formal cost benefit analysis. The following two subsections will highlight these potential costs and potential benefits.

**i. Potential Costs of Excelsior Scholarship**

The first major cost of the Excelsior Scholarship would be the increase in spending that the New York government would have to incur. The scholarship would cover the “last dollar” costs of every eligible recipient. This means that it only covers the tuition the recipient would have owed after all other forms of financial aid. As a result, the direct cost of this scholarship would not quite be the bulk tuition of all the recipients, but the remainders of their tuition. However, the cost to the state would not be limited to these the scholarship.

Another cost to the state might result from an increase in enrollment, specifically in state enrollment. State schools typically receive money from both the state and federal government to cover their costs and allows them to charge lower in state tuition fees. However, in addition to this funding, they also charge premium rates to out of state students. With the passage of the Excelsior Scholarship, it is likely that there would be more applicants from in state, and the



schools would likely be letting more in. This would reduce the money raised from out of state tuition, and would require the state of New York to send extra funds to the schools.

An additional cost worth considering is the value of the degree for the recipients of the excelsior scholarship. The scholarship requires all students to stay and work in New York for the same amount of time they received the scholarship. As a result, there will be a major increase in recent college graduates all seeking employment in New York. This would likely make it more difficult for these applicants to find employment, and also potentially depress wages. The cost for the recipients could be calculated as a modified income comparison between immediate post graduate wages prior to the scholarship and an estimate of the immediate post graduate wages following the graduation of the scholarship receiving students. A direct income comparison would not be accurate, as some of the students who received the scholarship may not have gone to college otherwise, so they would have been earning non college wages. When the estimate of the immediate post graduate wages are calculated, it would have to account for a potential increase in non-scholarship recipients leaving the state of New York after graduation, owing to the market saturation of graduated students seeking employment.

Another potential cost to consider is an unexpected increase in cost, and its relation to state taxes. While the New York State government has not stated that it would raise taxes to cover their increased expenditure, they may find themselves having to do so if their debt goes too high. The scholarship is currently being implemented incrementally, with this year's family income cutoff being \$100,000, with a 3 year increase to the final \$125,000. What this means is

that there will likely be surprise enrollment hikes as the threshold rises. Families that make between \$100,000-\$125,000 are more likely to have kids that enroll in college than low income households. In particular, the most upper bound of the final threshold actually falls in the top 20% of household income in New York State. The top 20% of household income in New York starts at \$120,700, and the lowest 5% in that percentile is higher, population wise, than any other percentile. (*Statistical Atlas*) Data shows that high income families (top 20% percentile) have a 78% enrollment rate, as compared to 58% for middle income and 47% for low income. (*National Center For Education Statistics, 2017*) Thus, not only is the current eligible student count of 942,186 not representative of the total eligible count, it also represents the eligible students who are less likely to enroll than the incoming eligible students. In addition, if the program is a success that will likely encourage even more people to sign up next year. This year, narrow enrollment periods which rolled out very shortly after the bill limited applicants for the scholarship, but success after the academic and increased awareness about the program could make families more eager to sign up, regardless of the length of the enrollment period. All of these factors were most likely accounted in when the state government evaluated this program.

However, these would most likely translate to a cost benefit analysis as very wide range variables, and the sheer scope for error would leave the potential for tax hikes. The tax hikes would cause a cost in multiple ways; one, it would increase what every resident of New York pays in state tax, likely alienating non eligible residents from the program. This could be measured by analysis of previous polling done (preferably in New York) about the impact of tax hikes, specifically with regards to a particular project. However, and perhaps even less

quantifiably, the dissatisfaction that arises from these tax hikes, coupled with the possibility of Andrew Cuomo running for President of The United States in 2020, and could lead to a new governor who repeals the scholarship to appease the state residents. This would likely be disastrous to enrolled students who receive the scholarship, and shoulder them with the heavy burden of not being able to finish college while also possible having unanticipated loans, since the scholarship converts to a 10 year loan if the recipients don't work in New York after, which would be increasingly likely for recipients who couldn't graduate. In fact, this effect could impact state spending and taxes as indirectly as the fact that a lot of these loan riddled drop outs may be forced to receive benefits from welfare. That possibility, however, is likely too much of a stretch to be quantified for the cost benefit analysis.

One final cost worth considering is a potential financial cost on low income college students. A variety of state funded programs, such as Pell Grants, leave low income students with a leftover sum that helps them fund their basic needs such as housing, food, and textbooks. The Excelsior Scholarship, on the other, only funds tuition. While housing and food costs are likely manageable for most middle class families (especially at least some of them will be commuting to school from home), low income households often struggle to pay those costs. A likely possibility of the scholarship, especially as the government will try and avoid or minimize tax hikes, will be cuts in programs like the Pell Grant. (*Commonfund Institute, 2017*) This could leave a lot of low income students no longer able to pay for their housing and food. This cost could be measured through some combination of analyzing the percentage of state expenditure on such grants, and attempting to calculate a potential amount of that that could be cut based on estimates for future excelsior scholarship expenditure from the state government. However, the

cost vs benefit of this aspect would not be as simple as comparing potential changes in percentage. While Pell Grants help low income students primarily with non-tuition expenses, owing to other financial aid options that help with tuition, they still do factor into tuition expenses. This is especially dangerous because the Excelsior Scholarship is a “last dollar” scholarship. If the scholarship wasn’t last dollar, it could potentially offset the reduction in the Pell Grant. Thus, it seems more likely that the Pell Grant and other similar grants will go towards tuition, leaving low income students with less money to spend on housing and food if the grants get cut. The cost for these low income students would likely go beyond financial; they’d almost certainly have to take up employment to pay their basic expenses, which would limit the attention they could turn to school. When considered with the fact that the New York entry job market will get much more saturated in a few years, students who aren’t able to excel academically will have that much of a tougher time finding employment.

## **ii. Potential Benefits of Excelsior Scholarship**

The benefits that can be derived from this scholarship are probably more familiar to anyone reading this than the costs. The first few chapters touched on the benefits, but they focused more on descriptions of various programs. The following descriptions attempt to specifically analyze the benefits the scholarship would provide to the different parties involved.

The most notable benefit received from the Excelsior scholarship would be to its recipients, as it would help them lower their tuition burden, and consequently their potential student debt burden. As a result, they get the benefit of receiving a free college education, along with potential for benefit in the future thanks to higher earnings from careers they are now qualified for. While the benefit can’t be measured directly by comparing current college wages

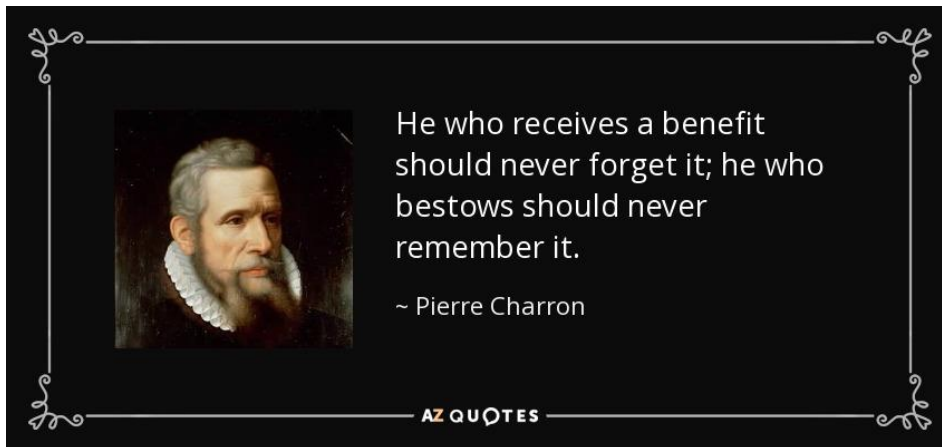
and non-college wages, the new wages for college graduates could be estimated by factoring in approximately how much the job market for immediate post graduate jobs would rise. Thus, those wages could be compared to current wages of people from families that make \$125,000 (in the event that this information is not available, as it is unlikely that there is extensive data on year's old household income data for adults.

### **iii. Decision to Not Use Cost Benefit Analysis**

As I explained in the Introduction, the analysis portion of this thesis was initially intended to be a formal cost benefit analysis. However, there were numerous flaws with using this as the type of analysis, which led to me researching alternative methods and identifying the distributional consequences analysis. While a cost benefit analysis would serve to provide an understanding of the negative and positive aspects of the Excelsior scholarship, the large focus of the cost benefit analysis is budget related, and would give more insight into the impact of the scholarship on the New York state government than on the recipients. On the other hand, a distributional consequences analysis identifies how much benefit the citizens get based on how much income they make. While still limited by the constraints of only using financial data, this form of analysis serves better to understand how effective the scholarship would be at helping students who need it the most. This would allow me to make inferences and conclusions about the scholarship that are more closely related to both its stated purpose and the benefit received by struggling recipients. New York State touted the scholarship as extremely progressive, and emphasized how much it would help low income and middle income households. The reaction by the media has been largely approving, with the state's government being given credit for

taking on such a massive initiative in order to benefit thousands of financially struggling New York residents. However, the distributional consequence analysis will help get an idea of how true the state's claims actually are, and allow for potential suggestions to help the scholarship more closely align with its stated purpose.

## 4.2 Measuring Who Receives the Benefit



*Image obtained from [www.azquotes.com](http://www.azquotes.com)*

The cost benefit analysis is one method to analyze the Excelsior scholarship, but it focuses more on the aggregate costs and benefits of a program, rather than analyzing who receives the benefit of it. The goal of the Excelsior Scholarship is to help low and middle income families, and, as such, it is important to fully understand what degree of the benefits from a program like this would be allocated to the targeted recipients. Specifically, an alternative method would attempt to calculate the distributional consequences.

Distributional consequences, also known as distributional impacts, refer to the allocation of the benefits or costs of any enacted policy. In regards to the Excelsior Scholarship, a study of the distribution consequences would focus on various tiers of household income in New York, and study how much each tier benefits from the program in comparison to how much they spend. A sample set of tiers could be the distribution New York uses for low, middle, and high

income residents. The aim of such a study would be to see how much each tier is paying to fund the Excelsior scholarship, and how much each tier receives in direct benefit vis a vis savings thanks to reduction in tuition.

An interesting approach to calculating distributional consequences is the ITEP model. The ITEP is the Institution of Taxation and Economic Policy. Since 1980, they've conducted research about various aspects of taxations, including distributional consequences. The ITEP model serves as one of the methods with which they do so. As defined by the ITEP organization website,

The ITEP model is a tool for calculating revenue yield and incidence, by income group, of federal, state and local taxes. It calculates revenue yield for current tax law and proposed amendments to current law. Sepa-rate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age. In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supple-mentary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

*(Who Pays: 5th Edition, Institution of Taxation and Economic Policy)*

The model thus works to analyze positive and negative impacts of taxation on a variety of groups. The model separates by income, but also separates by other more unique factors like marital status and children. The ITEP serves as a good source both for understanding the analysis that would be required and for the actual data.

However, there is one main difference between the analysis done by the ITEP and a distributional consequences analysis of the Excelsior scholarship. While the ITEP uses existing



tax databases to determine distributional impacts, that data isn't available in regard to the Excelsior scholarship. Since the scholarship is still being phased in, there isn't any concrete data about the distributional consequences of the scholarship. As a result, I would need to theorize the distributional impact based on available data about the incidence of tax in New York. This can be done in a variety of ways.

There is a form of precedent by which one could attempt to estimate the tax impact of the Excelsior scholarship based on tiers of income. Current state funded financial aid programs, such as scholarships and Pell Grants, do have existing data that shows how much tax revenue they require. This information, when analyzed alongside the data of how much people in the different income tiers receive in these aid forms, can be used to estimate how the Excelsior scholarship would affect the different income tiers.

The nature of this analysis will likely show at least some correlations to a number of the major criticisms of the Excelsior scholarship, and likely will align with the hypothesis I made for this thesis. High income residents in New York are classified as households that make over \$121,700 a year, and with the scholarship having a cap at \$125,000 a year, it is unlikely that the high income households will receive as much benefit from this scholarship. Data from ITEP shows that the high income tier of families in New York pay a lower percentage of their tax revenue than low income households and mid income households, which means it is significant to at least attempt to estimate what the high income residents who qualify for the scholarship will receive, even if it is a very small portion of the applicant pool. The top 20% of New York households pay an approximate rate of 10% of their income to state taxes. In comparison, middle

income households pay approximately 11.6% of their income in state taxes, while low income households pay approximately 10.4%. (*Fiscal Policy Institute, 2016*) As a result, the high income households pay a smaller portion of their income into the funding of the Excelsior scholarship. However, a vast majority of the high income households wouldn't be eligible for the scholarship. As the high household income threshold begins at \$120,700, only households that make between \$120,700 to \$125,000 would be eligible for the Excelsior scholarship. Based on information about individual tax rates, households whose income falls in that range pay approximately 11% of their income to state and local taxes. (*New York State and Local Taxes, ITEP, 2014*) While this means this subset of high income households pay more in state and local taxes than low income households, they are still paying less than the middle income households. As a result, the households that fall in this range get the benefits of the Excelsior scholarship despite making more money and paying a smaller portion of their income than middle class households.

In addition, the nature of how financial aid is awarded may actually increase the benefit that these high income households receive. Households that make over \$110,000 a year receive, on average, \$1860 from all awards and grants for tuition at public colleges and universities in the United States in 2014. In comparison, the average for all incomes was \$6,790. Households that made \$30,000 a year or less received \$9,880 and households that made \$30,001 to \$48,000 received \$9,300. (*National Center for Education Statistics, 2015*) As a result of this, the net cost of attending college for high income residents is likely higher, and thus could help these students receive more money in Excelsior scholarships than their less affluent counterparts. This analysis focuses solely on public colleges and universities. The reason for this is that the Excelsior

scholarship has very limited benefits for private institutions. The scholarship provides up to \$3,000 for eligible students to attend private institutions, but the schools have to opt in and match the scholarship amount.

The table below highlights the information about the three income tiers, their current state and local tax payment percentages, the average amount someone in that income range receives in financial aid to attend a public college or university, and the net cost for someone in that income tier to attend a public college or university. The numbers used for the financial aid and net income are represented as estimates. The only available data obtainable that had this information was from the National Center for Educational Statistics, which only had information available for the United States as a whole, and with income ranges that do not align exactly with the three income tiers used in New York. As a result, I had to manually adjust the ranges, and consequently attempt to estimate how much that would change the financial aid rates and the net cost. All three income tiers in New York are higher than they are represented in the NCES report. As a result, I slightly reduced the financial aid awarded, and slightly raised the net cost of attending a public college or university. To do this, I created a ratio based on the 2015 New York State median income and the United States national median income. For New York State, that median income was \$60,850, while in the United States, the median income was \$55,775. (*Department of Numbers, 2016*) This resulted in a ratio of 1.091, which was used on both the financial aid information and the net cost information. New York state spends more on financial aid than most states in the United States (*Clark, 2017*), which led me to attempt to create an approximate adjustment by slightly raising the financial aid received per capita numbers and slightly reducing the net cost of attending public colleges and universities. I was unable to find

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exact per capita numbers for each state, so I instead used the state budget per capita to determine the ratio with which to modify the amounts. The state budget per capita of New York was \$7,527 (*New York State Division of the Budget, 2018*), while the United States median state budget per capita was \$5,669 (calculated on Google Sheets, image in Appendix). This resulted in a ratio of 1.33, which was then applied to the federal aid and the net cost of attending college.

The end result after these two minor adjustments was a set of estimates, with the end net result of the financial aid award estimates being slightly higher than the average for the United States, and the net cost of attending public colleges and universities estimate being slightly lower than the averages for the United States as a whole.

New York Financial Aid Income Statistics

| Eligible Candidates Income in NY | Tax Rates/Yearly Payment Per Capita in NY | Financial Aid received per capita for Public Higher Education in NY | Net Cost of Attending Public Colleges and Universities in NY | Net Cost Covered by Excelsior program (Net Cost minus Rent \$8,000*) |
|----------------------------------|---|---|--|--|
| \$121,700-\$125,00               | 11%                                       | ~\$1780   | ~\$11,900  | \$3,900  |
| \$48,001-\$121,699               | 11.7%                                     | ~\$5000   | ~\$10,400  | \$2,400  |
| \$0-\$48,000                     | 10.2%                                     | ~\$9500   | ~\$6,400   | \$0.00   |

*Figures obtained from National Center of Educational Statistics. ~ indicates that the value is an estimate, arrived at from the process described above the table. \* Rent expenses, which are not covered by Excelsior are estimated by expenses for 'room' at SUNY Oneonta for 2016-2017.*

The table above illustrates the breakdown of the three income groups, noting what percentage of their income in state and local taxes that they're paying, how much estimated financial aid (excluding loans) that they receive to attend public colleges, and the estimated net cost they incur to attend public colleges. While these estimates aren't quite as precise as an exact number, they still provide a very accurate approximation, and are close enough estimates to be used to make inferences about just how progressive the Excelsior scholarship is. The net cost of attending college is defined as the total sticker price of attending college minus all the aid received, in which the sticker price consists of "total cost of yearly tuition, books, room and board, and any fees the campus might charge like a parking permit or library card fee." (College Greenlight, 2015) Of these costs that comprise the sticker price of attending college, the Excelsior scholarship will only provide relief from tuition and fees. The fourth column in the table shows the amount that the Excelsior scholarship will actually be able to cover. To do this, I removed housing costs. The housing costs were inputted as \$8,000, based on the Housing costs of State University of New York, Oneonta for the 2016-2017 academic year. (Cost Breakdown, 2017)

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The estimates shown in the table help identify what may be the most central issue regarding the Excelsior scholarship, and, for the most part, backs up my hypothesis. The purpose of a distributional consequence analysis is to determine who receives the benefit from a program. Based on the available information, it is likely that the high income households that qualify for the scholarship will actually receive the most tuition benefit. This is due to the fact that, out of the three income tiers, people in this category currently have the highest net cost of attending a public college or university, which will result in them receiving larger amounts of money from

the scholarship than other income tiers. However, it is worth noting, for the purpose of an accurate analysis, that the number of eligible students that fall between the narrow household income parameters of \$120,700 to \$125,000 is very low. An estimated 1.5% of New York households have an income that falls in that range. (*United States Census Bureau, 2015*) When considering the portions of these households that have college aged children, and the portion of those households that would choose to send their child to a private institution, a very small percentage of the eligible candidates for the scholarship would be high income residents. In addition to this, as of 2017, 71% of high income households send their children to college (*National Center For Education Statistics, 2017*). This is the highest rate of the three income tiers, which also means that the enrollment rates of high income families is most likely not going to be affected significantly by the scholarship.

While high income candidates seem likely to receive the most money from the benefit from the Excelsior scholarship, the size of the eligible high income candidates is far smaller than low income households and middle income households. As such, middle income households are likely to be the most overall profitable recipients from this scholarship. While middle income households don't enroll their kids in college as often as high income households, they still enroll them at a higher rate than low income households, with over half of middle income households choosing to enroll their children in college. 58% of these middle income households enroll their children in college. (*National Center For Education Statistics, 2017*) In addition, unlike with high income households, the income range for middle income falls entirely below the cutoff to qualify for the Excelsior scholarship, when it reaches its apex at \$125,000 as the cutoff. This fact, in combination with the fact that middle income households represent over 30% of New

York State households (*United States Census Bureau, 2015*), shows how middle income households represent a very large portion of the eligible candidates. In addition, middle income households can typically afford the other costs of attending college that aren't covered by the scholarship, such as food and housing. As a result, there will likely be a high percentage of students who qualify that are able to sign up. This would likely result in a significant increase in the current 58% enrollment rates for middle income households, because many middle income households cite aversion to student loans and tuition costs as primary obstacles to attending college. Access to the Excelsior scholarship would eliminate the need for such loans. A potential negative impact for these students, more so than the high income household students, would be that they have to work in the state of New York for the same amount of years they received the scholarship. There's a very real likelihood that, in a few years, the amount of immediate college graduates living in New York will be significantly higher thanks to both access to the scholarship and the requirement that they stay in New York. As a result, this could make it difficult for these middle income household graduates to find jobs. While someone from a high income household would probably have access to their family's money until they obtained employment, it would likely be more difficult for a middle income household graduate to have that same luxury.

A large portion of the criticism of the Excelsior scholarship centers on potential harm for low income households. Critics argue that the program will primarily help the middle class, while lower income households will be left out for a variety of reasons. As such, it is quite possible that low income households would not be making much profit off the scholarship. Based on the information in the distributional consequences analysis above, low income households pay a percentage of their tax rate close to equal with households that make \$121,700

to \$125,000. However, while their current net costs for attending public colleges and universities are lower than other income tiers, it is important to note that the difference in their financial aid amounts with the other two income tiers is greater than the amount by which their net costs are lower. A larger portion of low income household costs are associated with non-tuition related payments. Unlike with middle income households, most low income households would have trouble even paying for the housing, textbooks, and food costs for their children. As a result, it is possible that this program will actually have an insignificant impact on the enrollment rates from children from these households. Currently, 41% of low income households send their children to college. (*National Center for Education Statistics, 2017*) With the current numbers, over half of qualified students from low income households won't receive any benefit from the Excelsior scholarship, unless the enrollment rates increase. With the remaining costs still being too much for a lot of these households, the enrollment rate may not actually change significantly. However, beyond a lack of growth in lower income household enrollment rates, there is also a chance that the scholarship could actively hurt these households. There are numerous grants and awards, such as the Pell Grant, which are intended to help low income students with all aspects of their college costs. Typically, a portion of this grant goes towards tuition, and the remainder can be spent on rent, textbooks, food, etc. However, the Excelsior scholarship could make this complicated, at least in theory.

Thanks to the great degree of variance in how much the scholarship will cost the state, there is a chance that it may result in either tax hikes or budget cuts, if not both. In the case of budget cuts, it is possible that grants like the Pell Grant will see their funding from the state fall. Since the Excelsior scholarship is a last dollar scholarship, meaning that it only covers the



remainder of tuition after all other forms of financial aid, this would mean that the portion of the grants that went to tuition would remain the same, leaving less money for these low income household students to pay for their other expenses. This would hurt all low income household students that currently rely on Pell Grants. As a result, this will diminish the amount of profit/savings that the low income household students get. The only real way that the scholarship could be significantly profitable for this income tier is if it increased enrollment rates. However, between the already difficult non tuition costs and the possibility of reduced access to non-tuition covering financial aid, there is a good chance that the enrollment rates for low income households don't go up significantly.

The benefit that each household is likely to receive is, on average, less than what they pay in the form of taxes. However, their taxes go towards a variety of benefits provided for them, not just tuition. Despite this, low income households, on average, will receive nothing from the scholarship. While some low income students may receive a benefit from this, a sizeable amount won't receive any help, either because the tuition aid isn't enough for them to be able to afford the other expenses, or because their net costs are entirely non tuition costs.

The cost benefit analysis and the distributional consequence analysis methods are both effective ways to measure the effectiveness of the Excelsior scholarship. However, the primary stated purpose of this scholarship is to help low and middle income households by eliminating their in-state college tuition. A cost benefit analysis would work better to analyze the impact the scholarship has on the state. It measures how much the state is paying out, and the varied benefits that could be provided to the state. The distributional consequence analysis, however,

helps better understand how the program helps the applicants, and specifically with regards to the tiers of income the scholarship is slated to help. The focus of this thesis has been on the struggle that students suffer through to pay tuition, and so the distributional consequences analysis is the more logical choice of the two. Based on the preliminary data analysis in this section, it is clear that the Excelsior scholarship will primarily help middle income households. The structure of the scholarship is such that it doesn't actually help cover the costs that prevent many low income students from attending college. However, both of these forms of analyses are limited, and arguably don't touch on every major aspect of society and the economy that the Excelsior scholarship impacts.



The common belief, both liberal and conservative, is that the goal of the government is to endow the residents of the United States with safety, security, and the equal right to succeed. The main point of difference, then, lies in how the government carries this out. The conservative viewpoint is that the government should stay out of people's lives, making an effort to keep people's taxes low and try and ensure that government spending on welfare is limited to those who most do it. Issues like higher education are often considered by these politicians and theorists to not be in the government realm. The conservative argument is that tuition rates are only skyrocketing because of liberal policy that guarantees college students loans. As such, making tuition free would simply expedite these price hikes, causing the institutions to charge exorbitant tuition rates, knowing that the government would fund it. In addition, specifically in America, the Republican Party, which is the closest major representative to conservative thought, is averse to the general access of college education. College educated Americans tend to vote for liberal policy and liberal politicians, regardless of race or income class. The complexity of the conservative viewpoint and Republican Party opposition to higher education has thus led to very little progress on policy that removes the burden of college tuition. New York is the only state to have such a program for all public colleges and universities, while a select few states have similar policies considering community college.

As shown above, the conservative viewpoint does not fight for higher education as a state sponsored right for the people. However, the information prior to this section has all led up to understanding the importance of quantifying the social justice aspect of economics. As such, looking beyond the cost/benefit analysis and the distributional consequences analysis, we must consider the ethics of if education is something that people deserve a right to. This discourse has

always been present in America, leading to the public school system that exists in America today up until high school. However, as many scholars noted, the value of a high school diploma 50 years ago is on par with the value of a college degree today. As a result, by the logic of those same principles that ensured the access of primary education to Americans, the shifting marketplace has made access to higher education something that all people need access to. This brings me to the liberal viewpoint of higher education. Unlike their conservative counterparts, liberals believe that the government must provide its citizens with a variety of services to ensure a decent quality of life. These include access health care, better access to public defenders, and access to higher education. The liberal viewpoint on taxes is that it should be kept as low as fiscally possible for the low and middle class, with the lost revenue made up through higher tax rates on the wealthy. While traditional conservatives believe that everyone should get tax cuts (which naturally leads to the wealthiest having the most net profit from any conservative tax reform), liberals concentrate exclusively on the lower and middle class. The Excelsior scholarship was rolled out by New York Governor Andrew Cuomo, a member of the Democratic Party, which is the closest major party in America to liberal/progressive viewpoints. During the 2016 presidential campaign, Hillary Clinton backed a federal reform that enact the details of the Excelsior scholarship for the entire country. However, the Democratic Party was also largely responsible for the loan policy in the 1970's, which has played a huge role in the current exorbitant rates of tuition. Many politicians in the Democratic Party hesitate to back anything that allows for free tuition for two main reasons. Firstly, Democratic politicians often have a degree of supporters who are conservative, and this encourages them to not openly support overly liberal policies. In addition, many Democratic politicians have campaigns backed by Wall Street, both from firms and employees. Student loan debt serves as the foundation for one of the

biggest securities that Wall Street manages, which are Collateralized Debt Obligations (CDO's) comprised of unpaid student debt. Student loan debt is easier for investment banks to convince people to buy into, as the loans are structured in such a manner that the borrower has no recourse to clear himself from paying the loan, even if they file for bankruptcy. Any law that provides access to free tuition would lower the rate of student loans being given out, which is the reason why many Wall Street backed politicians, both Democrat and Republican, avoid associating themselves with such a potential bill.

As we can see, both major parties in America are imperfect when it comes to providing the American populace with higher education. As such, a discussion of social justice and its role in economics will have to be founded on academic sources, rather than any political precedent. Amartya Sen is a renowned economist who has written extensively about the role of social justice in economics, and also discusses the notion of ethics and rights for citizens of a country. One of his most famous articles is titled *The Economics of Life and Death*, and was published in *Scientific American* in May, 1993. In this article, Amartya Sen discusses the importance of factoring in quality of life in economic analysis. As Sen argues,

Economics is not solely concerned with income and wealth but also with using these resources as means to significant ends, including the promotion and enjoyment of long and worthwhile lives. If, however, the economic success of a nation is judged only by income and other traditional indicators of opulence and financial soundness, as it so often is, the important goal of wellbeing is missed.  
(Sen, 1993)

This quote, located at the beginning of *The Economics of Life and Death*, attempts to argue that economic analysis must account for the comfort that the people of the nation have.

Indexes like the Human Development Index (HDI) and other metrics that measure standard of living and overall happiness attempt to quantify and provide data on these aspects of economic analysis, which often get ignored by neoclassical viewpoints. However, as Sen argues, solely basing any economic analysis on a financial perspective leaves a lot of holes in the results of the analysis, and results in an analysis that is entirely incapable of explaining the reasons for issues like disenfranchisement, dissatisfaction with standard of life, and people's general perception of their own life. Conducting a cost benefit analysis and distributional consequences analysis are, no doubt, important steps in analyzing a program like the Excelsior scholarship. However, a counter argument to the results, based on how Sen describes the purpose of economic analysis, is that those factors ultimately shouldn't prevent a scholarship like this, as free tuition programs help provide an essential service to citizens.

The idea that the costs and benefits of the program shouldn't determine whether or not it is viable is based firmly off of heterodox economic theory. Even if the program raises the cost for the government, and even considering the fact that wages might be depressed because of the terms of agreement of the scholarship, the impact that the scholarship would have on people's skill set, self-confidence, and ability to make informed decisions are all extremely relevant positive economic markers. The role of an economist isn't to just study money; rather, the economist studies markets and individuals to theorize, suggest, and implement policies that are beneficial for the general population. This form of analysis is a more holistic form of economic analysis. Amartya Sen himself discusses the problems with conducting economic analysis but not ensuring it measures all the different facets that a holistic economic analysis comprises of. Interestingly, he uses the example of Kerala, India, which serves as an example to back up the

veracity of holistic analysis. These findings are not current, and thus don't represent the modern Indian economic condition. However, the argument that he uses about the old economic data is relevant in conversations about the relationship between social and economic policy today.

In Kerala, as Sen explains, the overall Gross National Product (GNP) is low, with the state having one of the lowest in the country. If you judged the state purely through a financial lens, you'd come to the conclusion that the state is one of the least economically successful in India. However, Kerala also has the highest literacy rate in India, one of the lowest homelessness rates, and has one of the highest rates of access to women's health ratings in the nation. Both of these positive traits of the state only exist because the state government extensively involved itself with implementing programs to expand literacy and access to women's health services. In a purely financial aspect, Kerala ranks well below corporate dominant states like Karnataka and Maharashtra, and yet, states like those two have lower literacy rates, higher homeless populations, and (particularly in rural portions) less accessibility to women's health services. Kerala might not be incredibly wealthy, but the government's decision to target non-financial factors to improve the quality of life of its citizens has worked tremendously. This ties back into the free tuition debate for multiple reasons.

Much like Kerala, it is unlikely that the state of New York will generate a fiscal surplus from the Excelsior scholarship. Factors like an increase in tax revenue will serve to offset costs, but it is still highly likely that the state of New York will be spending more than it did before the program was implemented. In addition, even if you look at it from the perspective of the recipients, there are plenty of holes with the scholarship that would reduce its benefits. The last

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dollar nature of the scholarship makes it highly likely that the middle class will benefit from this scholarship more than low income households. The market saturation following the graduation of recipients of the scholarship may depress their wages, both reducing the benefit for the graduates and reducing potential tax revenue for the state. If this policy was judged solely by how much revenue/income it would produce, both for the state and the recipients, in comparison to how much the cost incurred would be, it is likely that the scholarship would not have passed. However, as with Kerala, the state of New York is making an involved effort to directly improve the standard of life of its residents, along with attempting to raise their happiness levels and reducing the economic anxiety associated with student debt. Thanks to the Excelsior scholarship, it is likely that, in a few years, there will be hundreds of thousands of additional college graduates in New York. These people are likely to be more satisfied with their life and earn more than their non-college educated counterparts. In fact, college educated employees have a statistically significant higher rate of job satisfaction than people without college education. (*College Board, 2008*) These are the factors that were considered when the Excelsior scholarship passed, instead of the finances of it. However, this is not to say that analyzing the financial component of the Excelsior scholarship is unlikely; in fact, quite the opposite. The fiscal analysis allows for the state to budget accordingly, and make the appropriate changes in the plan that best make it possible to not have to raise taxes on the citizens of the state. The main difference, however, between a holistic approach to something that is a basic right, like education, and judging it based on its fiscal merits, is simple. There was an implicit acknowledgement when this bill was being drafted and fine-tuned that the scholarship would be a cost for the state. As a result, there was never any need to debate whether or not it would serve as a profit provider for the state. Instead, the fiscal component of the holistic analysis mainly served as a framework by

which the state government could tweak the bill to minimize the burden on the taxpayer, while still ensuring that the people the program aims to help receive the full benefits.

Amartya Sen continues on to explain the reasons for a holistic form of economic analysis through discussing the global issues with famines. Thanks to advancements in agriculture and food production, there currently exists enough food being produced in the world to adequately feed the entire global population. Despite this, inefficient, and sometimes uncaring, distribution of food results in famines continuing to exist. This problem has many parallels with the education problem. The truth is that, in the entire Federal Government's budget, creating a federal program that allowed free tuition at all public colleges and universities below a certain income threshold (125k would be too high for many less prosperous states) is easily feasible. According to a free tuition proposal made by Vermont Senator, and former presidential candidate Bernie Sanders, the cost of a federal tuition coverage program would cost the government an estimated \$47 billion a year. (*Should the US Eliminate Tuition for Public Colleges and Reform Loans*, [www.countable.us](http://www.countable.us)) Bernie Sanders didn't expect this program to generate a profit for the federal government, allowing it to be a loss to help the people. However, much like with the famine situation, there is enough money in the US budget if the federal government made this a priority. In 2015, the total budget of the federal government was \$3.8 trillion. More specifically, the discretionary funding of the federal government was \$1.1 trillion, with over half of that going directly to the military. (*National Priorities Project*) That means that the United States is spending more than 10 times on military expenditure than they would on a program that provides free public college/university tuition. The fact is that, much like the situation with food quantity and continued starvation, the United States Federal Government could easily adjust its budget to

allow for a federal free public tuition bill. Bernie Sanders proposed covering these costs by raising taxes on corporations, but the truth is that, based on the numbers, an increase in corporate tax rates probably wouldn't be necessary. The federal government would probably have to make some adjustments in the rest of its discretionary budget (largely with military spending), and probably just resign themselves to an increased budget. This would, of course, likely raise the debt, which is frequently an argument used against federal spending programs like the proposed tuition bill. However, the debt increase would be temporary, as the federal government eased down the expenditures in other departments, probably in combination with a very minor corporate tax hike. This defense is also, once more, entirely fiscally based. It isn't even taking into account the duty that the government has to its citizens, and the duty of economists to fine tune and perfect propositions like this free tuition bill in order to both provide people with what is increasingly a need, and also to improve their quality of life.

This section marks the end of Chapter 4, which serves as the final chapter of the thesis before the conclusion. Through the discussion of different forms of analysis, along with an explanation of why those analyses can't be the sole criteria, a few significant points were made. Firstly, while it is not entirely clear how much the Excelsior scholarship would cost, and how much it would benefit both the recipients and the state, it is safe to say that the overall quality of life for New York residents would improve. Secondly, even though much of the data on the distributional consequences indicates that the scholarship would really mainly help the middle class, leaving out a lot of the lower class, it's important to remember that this is a step forward. Low income residents will be better off than they were before the scholarship, even if they're not receiving as much benefit as the middle class recipients. The Excelsior scholarship isn't the final

step in educational reform, but, rather, the first major step that any state has taken in this direction. Finally, it is clear that, while analyzing fiscal components of a policy are important, it is equally as important to consider the social good of a policy. Economics, as a field, is sometimes criticized today for having become too numeric. This criticism is largely valid. The advancements in fiscal economic analysis over the years is noteworthy, but it is important to remember that economics is really a field that exists for qualified economists to study markets for the purpose of improving the lives of the people within the market. From free market economics, to Keynesian economics, to everything in between, the foundation for all these viewpoints is that they help improve people's lives. As a result, when a policy proposal with such massive social benefit, like a tuition free program, is examined through the lens of economics, the analysis does not do justice to the people of the nation if it doesn't consider the various social, mental, and income benefits that the residents get. The wealth that a society, state, or nation has is often used to judge the output and economic quality of that place. However, economists like Amartya Sen understand the importance of judging a community by the quality of life of the lowest tier of its residents. The goal of an economist must be to find ways to improve the lives of those most suffering. This may be at the expense of those more privileged, but, for an economist to adequately help a society, he must find a way to ensure that everyone in the society has a decent standard of living, and is given the same opportunity to succeed. Today, those people at the bottom that need the help of politicians and economists are low income households with kids. Given little access to resources, even from a young age, these children in low income households often perform worse at school work and standardized testing than their wealthier counterparts. As a result, these kids are often unable to attend college with the help of scholarships, and instead need to either incur large amounts of debt or decide not to go to

college. These people, the lowest tier of society, are thus trapped in a cyclical poverty trap, where they are unable to access the resources that would allow them to earn more. These people are the top priority of any economist. To conclude, I'd like to highlight the importance of humanity, and the role it plays in economics. As a society, we must be capable of taking care of our downtrodden. When people are dying because they can't access healthcare, our entire society, from economists to politicians to business leaders to your average voter, must do their part so that those who can't afford healthcare can get access to it so that they don't have to die. When families are trapped in poverty for generations because of a lack of access to education, all of us must show compassion for these people, and do everything in our power to help them gain access to the education they need to escape poverty. Far too often, economics is used to support cold, overly rational arguments that stick to discussing numbers and don't discuss the fact that economists should show sympathy and care to those less fortunate than them. The struggle of the lowest tier of society is the reason why the field of economics exists, and certainly why it's so important. In the coming years, the whole nation will be watching closely to see how well the Excelsior scholarship works for its recipients. The possibility of a future in the United States where all students have access to the public education they both need and deserve could largely be determined by how successful the Excelsior scholarship is in New York.

The literature review and analysis of the Excelsior scholarship in Chapter 4 allowed me to arrive at numerous conclusions and inferences, which will be discussed in depth in the Conclusion section. The distributional consequences showed that the program isn't as progressive as advertised to be, with low income households not receiving as much help as middle income households and, perhaps more importantly, often not being given enough help to

let them actually access higher education. However, it is not unreasonable to view the program as a first step, and the hope is that the results from this analysis, and any future analysis of this nature, allow for the scholarship to be tweaked, both in New York and the rest of the country as similar policies get proposed at a state and federal level. The program would still lower the net cost of attending college for low income households, so to argue for its repeal on the basis of a lack of adherence to the progressive ideals the state associated it with would be even more anti progressive, as it would result in an increase in financial difficulties and damage incurred by low income households.

Section 4.3, on holistic analysis and social justice, builds off of the findings from the distributional consequence analysis, despite a portion of the section decrying the emphasis given to strictly financial analyses like that. However, while a distributional consequences analysis is entirely fiscal, the purpose of conducting the analysis is rooted in the topics discussed in 4.3. As a form of analysis rooted in the desire to understand specific benefits received by those who are suffering, a distributional consequence analysis is rooted in its relationship to notions like basic humanity, social justice, and the government providing citizens with the right to an adequate life.

The decision to focus on the distribution of the benefits of the Excelsior scholarship, rather than an in depth evaluation of its costs, benefits, and feasibility to the state government, is based off of the moral aspects of economics discussed in section 4.3. As such, a thesis that featured the choice to use a distributional consequences analysis over a cost benefit analysis would be inadequate if there wasn't a section that explained the moral implications and humanity and holistic based reasoning that went into the choice. The following conclusion will thus focus

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on a few aspects of this analysis, in order to wrap up this thesis in a complete manner. Final thoughts and inferences that can be made based on the topics discussed in 4.3 will be presented as conclusive statements. These will be about the Excelsior scholarship, but will also be about the nature of modern economic analysis. While the latter of those two isn't directly related to the topic of this Senior Project, the observations that are made in this secondary conclusion are indicative of one of the major hurdles that programs like the Excelsior scholarship face.

Based on my inferences of the distributional consequences, which are essentially that the scholarship is lacking in its benefits to low income households, but is still providing some degree of improvement to their suffering and thus needs to be kept, adjusted, and expanded, the conclusive statements will aim to ensure that the scholarship stays and gets improved, and that other states begin to adopt it. Thus, discussing the flaws of the reductive economic analysis methods that contribute to the inability to spread this scholarship through the nation is helping confirm the fact that government funded tuition relief is beneficial to the nation and its population. By discussing the inaccuracies that result from a limited, entirely fiscal economic analysis, the conclusion will provide future economic advocates of government funded tuition relief with a framework with which they can pivot the debate to discuss a more all-encompassing form of analysis that actually is able to consider the entirety of the value of the factors affected by the Excelsior scholarship. Lastly, the conclusion will aim to describe the process of creating the thesis, highlighting the changes that occurred and elaborating on the thought process behind them. The presentation of this transition of thought is the best way for the conclusion to highlight just how significant the project switch from state budget analysis to analysis of the benefits received by the least fortunate members of society was.

## Chapter 5: Conclusion

The first major conclusion that can be made about the scholarship is that the progressive criticism of it is largely true. Based on the findings from the distributional consequences analysis, the majority of the aid will be going to middle class households. While the eligible high income households technically receive the highest, a majority of wealthy people wouldn't receive any benefit from the program, and the amount of wealthy recipients is a very small percentage of the total eligible student population. As a result, the program is at least partially following its mission of primarily helping low and middle income households, albeit imperfectly. Ideally, the scholarship would help low income students with the overall cost of attending college, as the enrollment rates for low income households are currently by the far the lowest of the three income tiers. However, the program does provide some degree of benefit to low income households, with them also having the lowest college attendance net cost of the three income tiers. As a result, the scholarship falls somewhere in the middle as far as its progressive credentials go. It's not perfect, and may not help low income households enough, but it helps middle income households a lot, and it does provide somewhat significant aid to low income households. At the very least, it's safe to conclude that it is better than what existed before. Issues that can be drawn from this analysis stem more from the scholarship not helping certain groups enough, as opposed to it actually hurting groups of people. Based on this analysis, therefore, I think it is safe to conclude that the Excelsior scholarship is a flawed, but essential step in the effort to stop the higher education tuition crisis. The flaws and limitations of the scholarship could be fixed in the future, but, as it stands, both low income and medium



income households are getting an easier path to access higher education. These are, of course, somewhat assumed conclusions, based on the data analysis. The conclusions drawn from this thesis could very well be the basis of another, more in depth analysis of the Excelsior scholarship, which may be able to provide even more information about it, and help continue the push to have a similar tuition alleviation bill pass on a federal level.

This Senior Project took on many different shapes and forms as it came to become this final product. This process, and the thinking and rationale that went behind it, allows this thesis to conclude with a reaffirmation of the importance of the points it finally arrived upon. For the first month or so, the project was intended to be an analysis of free tuition in America and a formal policy proposal outlining that, along with explanations of higher education and comparisons with other nations with free tuition. However, when Excelsior passed, I quickly realized that I had to include a section of this SPROJ to this new program. This SPROJ thus ended up analyzing the Excelsior scholarship, and helping identify how it aids low and middle income households, who were its primary intended recipients. As a result of this, the findings help any future policy proposal for free tuition, because the writers will know the specific flaws with the Excelsior scholarship, and they can use this data I've presented to present a better, more progressive version for the United States. This Senior Project also showcased potential costs and benefits of the scholarship, while identifying why the distributional consequences analysis was more effective at analyzing the scholarship.

Finally, the Senior Project discussed the notion of social justice, attempting to view the Excelsior scholarship from a position of being humane. While this section did not arrive at any

direct conclusions like the previous two, it did highlight the flaws with current economic analysis, and emphasized the importance of taking care of citizen's basic needs. In addition, it discussed factors that affect the impact of a policy, but aren't always considered in economic analysis. These factors, like happiness or comfort, don't affect the bottom line of a cost benefit analysis, but they do play an indirect role in economic output, with happy employees being more likely to take their work seriously. Factors like this, along with considering the value that exists when providing a right to the citizens, really help fortify the reasoning of the Excelsior scholarship. Governments already somewhat do this, albeit on a very rudimentary level. For example, when constructing a road, the government acknowledges that is a loss, but also deem it as a right for people to have, and therefore build the roads. The one potential conclusion that can be drawn from the holistic analysis is the fact that college tuition isn't often enough framed as a right, despite it being necessary for most people to live an adequate lifestyle.

The truth is that the Excelsior scholarship is not a progressive one, despite what it was touted to be by the New York State government. However, the scholarship is a step in the right direction. While imperfect, it does help the middle income households greatly, and also provides some relief to some low income households. As a result, this is a scholarship that should stay. Instead of repealing it, New York should work on fine tuning it, and tweaking what it offers, so that low income households can also see a benefit from it. While the scholarship is not progressive, it brings New York close to being a progressive state than it was before. Finally, this Senior Project has aimed to show that the analysis of any policy cannot be solely based on financial burden to the provider. New York passed this scholarship without any expectations of it generating revenue for the state. Instead, it generates utility to the citizens of

the state, and moves the state in the right direction towards being a government that adequately provides for its people. This shows that the discussion around Excelsior, and other policies like it, has to be less about its cost and more about who it benefits, and how much. In order to truly provide for the citizens, governments have to be able to help the downtrodden, the people who are most in need of help by the government. This scholarship doesn't quite do that in 2017, but, perhaps, one day it will.

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## Appendix and Notes

| State         | Budget Per Cap | State          | Budget Per Cap | Median |
|---------------|----------------|----------------|----------------|--------|
| Alabama       | 6,009          | Montana        | 9,778          | 5,689  |
| Alaska        | 9,750          | Nebraska       | 4,746          |        |
| Arizona       | 5,360          | Nevada         | 8,233          |        |
| Arkansas      | 9,603          | New Hampshire  | 4,284          |        |
| California    | 4,366          | New Jersey     | 5,637          |        |
| Colorado      | 4,966          | New Mexico     | 8,824          |        |
| Connecticut   | 5,681          | New York       | 7,527          |        |
| Delaware      | 4,334          | North Carolina | 4,312          |        |
| Florida       | 4,553          | North Dakota   | 18,760         |        |
| Georgia       | 2,320          | Ohio           | 5,657          |        |
| Hawaii        | 9,430          | Oklahoma       | 1,739          |        |
| Idaho         | 4,592          | Oregon         | 17,598         |        |
| Illinois      | 6,796          | Pennsylvania   | 2,460          |        |
| Indiana       | 4,819          | Rhode Island   | 8,426          |        |
| Iowa          | 2,689          | South Carolina | 5,372          |        |
| Kansas        | 5,461          | South Dakota   | 5,242          |        |
| Kentucky      | 14,915         | Tennessee      | 5,288          |        |
| Louisiana     | 6,252          | Texas          | 3,870          |        |
| Maine         | 6,244          | Utah           | 5,040          |        |
| Maryland      | 7,042          | Vermont        | 9,265          |        |
| Massachusetts | 5,755          | Virginia       | 6,179          |        |
| Michigan      | 5,442          | Washington     | 13,068         |        |
| Minnesota     | 12,988         | West Virginia  | 6,616          |        |
| Mississippi   | 2,139          | Wisconsin      | 6,394          |        |
| Missouri      | 4,504          | Wyoming        | 15,867         |        |

The image above shows the lists of the states and their budgets used to calculate the ratio that was applied to the financial aid awarded and net cost of college attendance estimates. The median, shown on the 5th column, was calculated using the MEDIAN function on Google Sheets. The sources below are from where I obtained all the state budget and state budget per capita numbers.

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