



## Do State Merit-Based Financial Aid Programs Support the American Dream?

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Higher education can only support the American Dream—that all Americans can enjoy prosperity if they work hard enough—if it is accessible to the poorest students and gives them a pathway into the middle class. But critics worry that there are too many barriers for low-income students to get into college, and that college is unaffordable for those who do. Some critics **point to evidence that**, rather than support social mobility, colleges have actually helped the upper middle class preserve its advantages and made it harder for low-income students to get ahead.

Many states have adopted merit aid programs to make college more affordable for high-achieving students regardless of their financial situation. Merit aid programs use a set of criteria to determine which students should be eligible for state financial aid to attend college and how much aid those students should receive. In 1980, virtually all state aid was distributed through need-based eligibility criteria; in other words, the eligibility requirements were entirely based on family income and ability to pay for college. However, by 2019 more than one-quarter of state aid was distributed according to non-need-based criteria like students' standardized test scores or high school class rank, and nearly 20% of all undergraduate aid was distributed to students exclusively based on academic merit—how well they performed in school, as opposed to how much financial assistance they needed to afford tuition. In some states (e.g., Arkansas, Louisiana, South Dakota), state grants and scholarships were awarded almost entirely by merit criteria. Another 22% of state financial aid was disbursed based on a combination of merit and financial need criteria.

Do merit aid criteria actually undermine the goals of increasing economic opportunity and social mobility through higher education? On any set of existing metrics for measuring academic aptitude, ability, or achievement, students from upper-class families are measured to perform better than students from lower-income families. When students from wealthier families disproportionately receive help paying for college through merit aid programs, then the programs that were meant to help high-achieving students afford college regardless of their financial situation end up disproportionately subsidizing college for the students who need the least financial support.

### Comparing Apples and Apples to Better Understand Merit Aid Policies

The problem with understanding whether merit aid supports or hinders social mobility is that merit aid programs vary across states, so the effects of merit aid programs may vary based on how state merit aid policies are designed. In the past, when researchers have sought to examine the effects of merit aid on social mobility, they have grouped together data from states with dissimilar merit aid programs. With funding from the William T. Grant Foundation, we are working on a project to consider whether differently designed merit aid policies have different effects on low-income students' access to higher education and on their ability to move into the middle or upper-middle class.

We began by focusing on states with what we called “strong” merit aid programs, which meant that at least 10% of full-time-equivalent college students in a state received aid from that state's merit aid program. Additionally, strong merit aid programs had to allocate at least \$100 for each full-time-equivalent student who attends college in a state. For our preliminary analysis, we focused on Tennessee and West Virginia because those two states used merit aid programs for their 36 public colleges starting in the 2000s.

Our preliminary findings show that when Tennessee and West Virginia adopted merit aid policies, their non-selective colleges (i.e., Tier 9 in Barron's selectivity index, which ranks institutions by their acceptance rates, and colleges not included in the index) enrolled more low-income students than they did previously,

relative to similar public colleges in states without strong merit-aid programs. In 2000, non-selective colleges in Tennessee and West Virginia drew less than 16% of their enrollments from the lowest income quintile. By 2011, around 19% of students at the same institutions came from the lowest income quintile. Conversely, those institutions reduced enrollment of students from the highest income quintile from around 14% to around 11%. The percentage of low-income students remains flat at around 10% at selective institutions between 2000 and 2011.

Despite the effect on enrollment, merit aid programs did not improve social mobility by allowing low-income students to attend college in Tennessee and West Virginia. Regardless of whether colleges were selective, strong merit aid programs did not have a statistically significant influence on the rates of low-income students who graduated college and went on to employment that landed them in the highest income quintile in their 30s. Our analyses accounted for state- and college-level factors, as well as the potential for broader annual shifts like changing national unemployment and inflation.

## **Next Steps in Understanding the Effects of Merit-Based Financial Aid Programs on Social Mobility**

In the past, researchers examined merit-based financial aid programs by aggregating colleges and universities across different levels of selectivity. At best, researchers considered that the effects of state merit aid policies might vary across public, private non-profit, and for-profit higher education. By defining and focusing on higher education outcomes in states with strong merit aid policies, we found that merit aid policies only increase low-income students' access to non-selective public institutions; their access to more selective institutions and their eventual wages—the promised prosperity of the American Dream—did not increase.

Future research should continue to examine why non-selective institutions increased enrollment of low-income students but failed to improve their chances of achieving social mobility by moving into the middle- or upper-middle classes. Scholars may consider whether low-income students initially enrolled at the non-selective colleges and universities, but those institutions failed to retain and graduate them. Alternately, those low-income students could be completing college, but they may need further support getting gainful jobs that allow them to avoid being trapped by student loan debt and move up into a higher income quintile. Future research should consider both alternatives, because the two explanations could require states like Tennessee and West Virginia to take divergent approaches to support social mobility for low-income students.

While non-selective colleges in states with strong merit aid policies increased enrollment of low-income students, selective schools in Tennessee and West Virginia did not even broaden opportunities for low-income students to access higher education. Future work may continue to expand the period of study and consider whether selective schools increase social mobility over longer stretches of time. Our research continues to examine variation in merit aid programs to better understand how merit aid programs may be best designed to support social mobility for low-income students through higher education.