The Dark Side of Merit Aid

Funding for merit programs has greatly expanded, often at the expense of need-based financial aid

By Donald E. Heller

I OFTEN SPEAK with policymakers, researchers and parents about state-sponsored financial aid programs. While almost every state has a grant program that awards scholarships to students based on financial need, the trend in recent years has been toward the creation of programs that award grants based on some measure of merit, rather than financial need.

Legislators and governors have noticed these trends, and for those states that do not yet have merit scholarship programs, or have only small-scale, limited programs, there is great pressure to make available more funds for merit aid.

Most state financial aid programs were founded after the enactment of the federal Higher Education Act of 1965. One of the provisions of the 1972 reauthorization of the act was the creation of the State Student Incentive Grant (SSIG) program. This program created a federal-state partnership whereby the federal government provided matching funds for state-run, need-based grant programs. SSIG sought to reinforce the goals of the Higher Education Act's Title IV programs to promote access to college for low-income students. While in 1969 only 19 states had need-based scholarship programs, totaling under $200 million in awards, by 1974 these programs had expanded to 36 states and $423 million.

In the 1990s the Clinton administration attempted to kill the SSIG program (since renamed LEAP–Leveraging Educational Assistance Partnerships), but Congress has continued to fund it. Its funding level has not kept pace with the growth of the state need-based scholarship programs, however. This has helped open the door to the creation and expansion of new merit scholarship programs by the states, moving them further away from the goal of using grants to promote college access for needy students.

From the perspective of public policy and the use of public resources, it makes little sense to give financial aid to individuals who would attend college without that assistance.

The inexorable trend toward merit scholarships has been well documented. Between 1982 and 1998, state funding for need-based grants for undergraduates increased 88 percent (in current dollars). During the same period, funding for merit programs increased 336 percent. In 1982 the share of grant dollars in the merit programs was 9.3 percent of the total appropriated by the states; by 1998, this share had doubled to 18.6 percent.

While the Georgia HOPE scholarship program has garnered much of the national attention, other states have jumped on the merit aid bandwagon in recent years. Alabama, Florida, Kentucky, Louisiana, Maryland, Michigan, New Mexico, Texas and Washington have either created new merit programs or have greatly expanded the funding for existing programs, often at the expense of need-based financial aid.

There are a number of characteristics of these merit aid programs that are troubling from the standpoint of public policy. Having examined several of these programs, including how they are funded and the criteria used to determine "merit," I have reached the point where I can formulate a clear set of recommendations for policymakers who wish to craft these programs in a manner to ensure that they are the most abhorrent to the goal of promoting college access for low-income students.

The recommendations are:

- Use a high-stakes test to determine who will receive the awards.
- Have no income eligibility requirements for the scholarships.
- Fund the scholarships from state lottery revenues or tobacco settlement funds.

Use a high-stakes test to determine who will receive the awards

The relationship between standardized tests and socioeconomic status is well established. In general, groups who have traditionally been underrepresented in higher education in this nation—poor, African American, Hispanic and Native American students—score lower than students from higher income, white and Asian American families. Thus, the use of a high-stakes test to award merit scholarships is likely to channel money away from students who need the financial assistance to enable them to attend college, and award it to students who are likely to attend college without the financial help.

An example of this phenomenon can be found in the newly implemented Michigan Merit Award Scholarships. This program, which provides one-time grants of up to $3,000 for college, awards the aid based on students' scores in the statewide 11th grade Michigan Educational Assessment Program tests.

In research I conducted with Douglas T. Shapiro of the University of Michigan, we found a large gap in the scholarship qualification rates of white and Asian American students on the one hand, and African American, Hispanic and Native American students on the other. For the first cohort of eligible students, those graduating from high school in 2000, 22 percent of white students and 25 percent of Asian American students qualified for the scholarships. In contrast, the scholarship qualification rates of underrepresented minority students were three percent for African Americans, 11 percent for Hispanics, and 11 percent for Native Americans.

We found the same types of gaps in the scholarship qualification rates when we examined students from schools in richer and poorer communities. Almost one-quarter of the students in the wealthiest communities qualified for the scholarships. In contrast, only six percent of students in the state's poorest communities qualified. Our conclusion is that the program is unlikely to have much impact on its stated goal of increasing access to college in the state.

These scholarship qualification rate differences have led to a "disparate impact," in legal parlance. This disparate impact is the core allegation in a federal lawsuit filed against the Michigan program last June by a coalition of groups headed by the American Civil Liberties Union of Michigan. The suit, *White et al v. Engler et al*, alleges that the program violates the civil rights of minority and poor students in the state through the use of criteria that are not educationally defensible. The suit is expected to go to trial this year.

A similar suit has been filed in federal court in Arkansas, alleging that a merit scholarship program run by that state also discriminates against minority students. The Arkansas Governor's Distinguished Scholar program, which bases the scholarships on students' SAT or ACT scores, has given only four of the 808 grants awarded since 1997 to African Americans. And this is in a state where approximately 20 percent of the high school graduates are African Americans.

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These are only two examples of the misuse of high-stakes tests. (For more on the misuse of high-stakes tests, see "Standards for the Standards Movement: Do High School Exit Exams Measure Up?" by Rebecca Zwick, in the Fall 2000 issue of *National CrossTalk*.) Other states use high-stakes tests for merit scholarships in conjunction with other criteria, which, while a step in the right direction, is still problematic if the use of these criteria results in the awarding of scholarships to students who are likely to attend college anyway.

Have no income eligibility requirements for the scholarships

As described earlier, one of the strongest predictors of whether an individual will attend college is the income and wealth of his or her parents. Data from the College Board indicate that 89 percent of high school graduates from families in the highest income quartile (family income above $74,500 in 1997) attend college. For students from families in the lowest income quartile (below $25,000), only 53 percent continue on to college. While many factors help to determine whether somebody attends college—including academic preparation and aptitude, and the influence of parents, siblings and peers—the research on college choice tells us that financial considerations are an important part of the equation.

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The Georgia HOPE scholarship program, when first introduced in 1993, included a family income cap of $66,000. Students from families with incomes above this level were excluded from participation. By the program's third year, however, the income cap was eliminated, thus opening up participation to all academically eligible Georgians. Most other state merit programs, such as the Michigan Merit Scholarships and the Bright Futures scholarships in Florida, similarly have no income ceiling.

An analysis conducted by the Florida Postsecondary Education Planning Commission found that almost 40 percent of the scholarships in 1998 went to students from families with incomes above $60,000 per year. Charles Reed, former chancellor of the state university system in Florida, related a vignette that summarized his frustration with the Bright Futures scholarships. After being approached by a man who praised the program on behalf of his two children who received the scholarships and were attending the University of Florida, "Reed was troubled when he learned that the man was an orthopedic surgeon who could easily afford university tuition without financial aid from the state. 'Something is really wrong when you do that,' Reed said. 'When you can give something away to the middle and upper-middle class, in politics, it doesn't get any better than that.'" (*Sarasota Herald-Tribune*, December 20, 1997)

There are some exceptions to this trend. Texas placed an income cap of $40,000 on its Toward Excellence, Access & Success scholarships. California's Cal Grant program uses both financial need and merit criteria in the awarding of scholarships. (The recent legislation to greatly expand the Cal Grant program, which has fairly stringent income requirements, is a welcome correction to the movement toward merit programs.)

The exceptions are few and far between, however, as most of the newly established merit aid programs have no financial need tests at all.

Fund the scholarships from state lottery revenues or tobacco settlement funds

The nation's two largest merit aid programs, Georgia HOPE and Florida Bright Futures, are funded from lottery revenues in each state. Research on lottery participation has found that tickets are disproportionately purchased by lower-income individuals, making it among the most regressive of all implicit state taxes. Charles Clotfelter and Philip Cook in their 1991 book, "Selling Hope: State Lotteries in America," also note, "The fact that participation declines with education appears to support critics' charges that with their relatively high takeout rates, lotteries take advantage of the ignorance of bettors."

The regressive nature of lotteries, when combined with the income-stratified nature of college participation in the nation, leads to a situation described by the Business/Higher Education Partnership of Florida as a "popular wealth transfer from low- and mid-income people to the well-to-do." (*St. Petersburg Times*, December 21, 1997) In commenting on the trend toward state funding of merit scholarships via lotteries, Philip Cook said, "An education lottery is an odd link between two government enterprises. One exploits the public ignorance, and the other is supposed to be helping that ignorance." (*Chronicle of Higher Education*, April 16, 1999)

Michigan took a different tack toward funding its merit scholarships. Rather than relying on lottery revenues, it instead decided to apply a portion of its tobacco settlement funds (slated to reach 75 percent of the total by 2002) to support the scholarships. While most of the states looked to spend the tobacco funds on public health programs such as youth anti-smoking initiatives, other states, including Oklahoma and South Carolina, have proposed to use the settlements for merit scholarships.

The policy of funding merit scholarships with tobacco settlement funds represents one more mechanism for transferring financial resources from lower-income to upper-income individuals.

Like lotteries, cigarette use—and thus the payment of cigarette taxes—tends to be correlated with socioeconomic status. Lower-income and less-educated individuals are more likely to be smokers, and therefore provide a disproportionate share of the state revenues from these taxes. The policy of funding merit scholarships with tobacco settlement funds represents one more mechanism for transferring financial resources from lower-income to upper-income individuals.

Following these three steps in creating merit scholarship programs will ensure that individual states and the nation as a whole will move even further away from the goal of using financial aid to promote access to college.

Publicly funded merit scholarships are a form of public welfare program, and can perhaps best be understood through analogy with a similar public benefit. We do not provide food stamps to people who can afford to eat anyway—doing so would do nothing to promote the overall nutritional health of the nation. Similarly, from the perspective of public policy and the use of public resources, *it makes little sense to give financial aid to individuals who would attend college without that assistance.* Doing so does little to move us toward the goal of promoting college access for needy students. ◆

Donald E. Heller is a professor of education and director of the Center for the Study of Higher Education, at The Pennsylvania State University.