

Rich Kids Are Eating Up the Financial Aid Pot

A large share of strapped school budgets is going to “merit aid” for wealthy kids, as part of a bidding war to enroll high-income students.

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In recent decades, many institutions of higher education have increasingly been awarding money to students who do not need that aid to afford college. More than half of the 339 public universities sampled in a paper published by New America at least doubled the amount they spent on so-called merit aid from 2001 to 2017; more than 25 percent quadrupled the amount. About two out of every five dollars these schools provided in institutional aid went to students the government deemed able to afford college without need-based aid. The schools do it because well-to-do families, overall, bring the institutions more tuition dollars than their lower income peers.

By diverting such a large share of limited dollars from students who need help to afford college to students who don't, schools are exacerbating a long-term trend of many schools enrolling far more students from families at the top of the income ladder than from those at the middle and bottom of it.

This fall, it is likely that the practice of awarding merit aid to students who could afford college without it will only accelerate. Because schools will be starved for money because of Covid-19 closures, they may look to offset a potentially historic decrease in enrollment by competing for a shrinking pool of wealthier students.

Simultaneously, countless colleges are anticipating declines in revenue since more campuses will be closed, meaning they could be even hungrier for the tuition fees wealthy families pay. (Most merit scholarships aren't anywhere near full rides.) Currently, merit aid and financial aid are effectively in the same pot at most schools, so the funds for the increase we expect in merit-based aid are likely to be culled from the pool of financial aid available to talented students from working class families.

This dynamic can and must change. Some leaders of colleges have wanted to end this competition by collaborating with other colleges to reserve the vast majority of aid to students who clearly have the need. But these leaders haven't so far because they fear it would run afoul of federal antitrust law.

Generally, ever since the *U.S. v. Brown University* decision by the Third Circuit of the United States Court of Appeals in 1993 — which ruled that the efforts of M.I.T. and Ivy League schools to collectively determine the amount of aid they would award was an antitrust violation — higher education aid policies that rely on interschool cooperation have been discouraged. It's a viewpoint supported by written guidance from the Federal Trade Commission and the Department of Justice. In 2013, after the Council of Independent Colleges merely raised the elimination of merit aid at its members' meeting, the Department of Justice under President Barack Obama opened an investigation.

While these laws make sense for other institutions, Congress should carve out an exception for schools. Inaction will mean furthering inequality.

Long before the Covid-19 pandemic, many colleges and universities employed a variety of tactics to recruit students from high-income households — and plying them with money was one of them. But now — with many domestic students hesitant about returning to campus and with international student enrollment about to plummet — inequality in the disbursement of aid could get much worse. An even more competitive push to enroll wealthier students this fall could result in institutions dedicating an even greater share of their scarce resources to the students who need them the least.

Ultimately, these competitive strategies are unlikely to work and fully meet enrollment needs over the long run. Yet, many colleges may persist with this approach as they have for decades, limiting opportunity for a large pool of talented low-income and (truly) middle-income students.

They can still change tack. Colleges and universities can still come together to agree on how to limit merit aid. Currently, competition to enroll higher-paying students functions much like an arms race. Without constraints, institutions will continually raise the stakes. A mutual agreement to disarm can de-escalate the conflict. But they'll need help from Congress.

Congress has the power to change this dynamic. As it has done for sports leagues — including professional football, baseball, basketball and hockey — legislators can grant an exemption so that colleges and universities can coordinate their financial and merit aid activities. And of course, they must devise any rules limiting the use of aid for wealthy students fairly, in good faith. Higher education associations and third-party watchdogs can transparently help the reform process.

During this pandemic and the subsequent recession taking hold, it is unconscionable to use ever scarcer college and university resources as part of a bidding war to get high-income students to choose one college over another. Without congressional action, and commitment from college and universities, that's precisely where we may be heading.

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