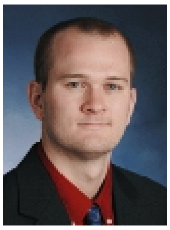
State merit-based financial aid programs increase the likelihood that college graduates will remain in their home state.



With the effects of the financial crisis still being felt across the U.S., having a highly educated population is now more important than ever. Seeking to encourage students into higher education, many states have implemented merit programs which provide college scholarships to in-state students. **David Sjoquist** *and* **John Winters** *examine the effectiveness of these programs, finding that strong merit aid can increase the likelihood that people will stay in their home state by between two and four percent.*

College educated workers create a number of positive benefits for states and nations, and state merit-based financial aid programs may be one way for states to increase their stock of human capital. Previous research suggests that the benefits of college educated workers to states include higher income tax payments, lower consumption of public services, lower crime rates, higher voting rates, and increased economic growth. We have investigated the effects of merit aid programs on post-college location decisions, finding that state merit aid programs significantly increase the probability that a young college attendee continues to live in their native state after finishing college. We refer to staying in one's native state after college as post-college retention in the state.

Motivated by the benefits of higher education, more than two dozen U.S. states have adopted new merit-based student aid programs since the early 1990s. These programs provide college scholarships to in-state students meeting merit requirements based on high school grade point average and occasionally standardized test scores. Merit aid programs are intended to increase access to higher education by lowering the costs, increase student effort in high school and college, encourage students to stay in-state for college, and encourage students to remain in the state after college. The last goal is motivated by the expectation that if students stay in-state for college, they will strengthen their attachments to the state and be more likely to reside in the state after finishing college. Despite the interest in merit aid programs, researchers and policymakers still know relatively little about their effects on student behavior.

Graduation at South Dakota State University
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Merit scholarship programs differ across states in several ways, such as the monetary value of the scholarship and the percentage of students who receive the scholarship. We have identified 25 merit programs adopted between 1991 and 2004 and classified nine of these as "strong" programs based on having relatively large awards and a relatively high percentage of students receiving them; we classified the other 16 merit-adopting states as having "weak" programs. The nine states adopting strong programs include Florida, Georgia, Kentucky, Louisiana, New Mexico, Nevada, South Carolina, Tennessee, and West Virginia. We examined the effects for all 25 states but largely focus on the nine strong merit aid program states.

Our baseline estimates suggest that strong state merit aid programs on average increase the probability that a college educated person resides in their state of birth after college during ages 24-30 by 2.76 percentage points. Alternative estimates suggest that the effect could be as large as 3.90 percentage points. Across all states, roughly 64 percent of young college attendees reside in their native state during ages 24-30, so the effect of merit aid programs on post-college location is neither substantially large nor substantially small. Still, states adopting strong merit aid programs will be happy to know that they are at least moderately successful in helping build the stock of college-educated labor in the state. Importantly though, the average effect for the weak merit aid states is much smaller; the coefficient estimate is less than one percentage point and not statistically significant. The smaller effect for the weaker programs is consistent with expectations because the smaller scholarships provide weaker incentives for students to alter their educational decisions.

We also found heterogeneous effects across states even among those with strong merit aid program and looked at a number of potential explanations. We found empirical support for three particular state characteristics. First, merit aid programs increase post-college retention rates the most in states that had initially low post-college retention rates. That is, merit aid helps previously lagging states close the gap in keeping their college attendees in-state after college. Second, merit aid is more effective at increasing post-college retention in states with higher quality institutions of higher education. Finally, merit aid also has larger effects on post-college retention in states with better locational amenities that make a state a more desirable place to live.

While merit aid alone does not meaningfully affect post-college retention, strong merit aid programs combined with attributes that make a state a more desirable place to attend college and live after college can have considerable effects on encouraging recent college attendees to reside in the state after college.

This article is based on "'Merit Aid and Post-College Retention in the State'" *in the Journal of Urban Economics.*

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About the authors

David Sjoquist – *Georgia State University*
David L. Sjoquist is Professor of Economics in the Andrew Young School of Policy Studies at Georgia State University.

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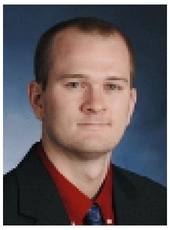
John Winters – *Oklahoma State University*
John V. Winters is an assistant professor in the Department of Economics at Oklahoma State University and an IZA Research Fellow.



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