

## PRESS RELEASE

03. April 2025

# Research: How Student Debt Affects Career Choices

- **Graduates with debt neglect earnings prospects**
- **Incomes and economic productivity held back**
- **New research published by EPoS Economic Research Center**

Bonn, Mannheim, 03.04.2025 – **In the US, student loan debt is the second largest financial liability for households after mortgages. While college graduates are able to earn comparatively high incomes in the course of their career, indebted students often do not exploit this potential. They trade off higher initial earnings to pay off their debt for better salary growth prospects. This lowers their lifetime earnings and leads to a misallocation of talent in the economy, limiting productivity gains. The EPoS Economic Research Center at the Universities of Bonn and Mannheim publishes these findings of new empirical and theoretical analyses in the discussion paper “Debt, Human Capital, and the Allocation of Talent”.**

“Student loans give low-income families access to higher education,” says Minki Kim from the EPoS Economic Research Center. “Yet, we find that graduates with debt often do not reap the full rewards of their college degree. As they want to pay back the loan quickly, these young professionals tend to choose first jobs that are not optimally matched with their skills but offer higher initial earnings. This is not just a temporary problem because the large majority does not switch to better-suited jobs later on. So these professionals keep missing out a significant part of what they could potentially earn.” To quantify the earnings lost, the researchers computed the effects of debt forgiveness programs, as they help professionals to move on to better-paid positions.

### **Quantification of missed earnings opportunity**

According to the computational model, lifetime earnings would increase by 36 percent if the full student debt was forgiven and, as a result, graduates changed jobs. Even forgiving just 10,000 USD would lead to an overall increase in earnings of 24 percent, if job switchers chose occupations better suited to their skills.

### **Debt forgiveness leads to large productivity gains**

The misallocation of skills not only affects lifetime earnings of individuals, but overall economic productivity as well. According to the study, debt forgiveness leads to productivity gains by allowing workers to move on to occupations that better match their skills and offer higher productivity growth potential. For example, productivity gains amount to 4 percent for the occupational group “mathematical and computer scientists”. Overall, the results show higher productivity for each occupation group, therefore the entire economy, the researchers conclude.

### **Relevance for other types of debt**

“Our results emphasize that getting into debt early in adulthood has a strong negative effect on individual earnings and overall productivity as workers trade off higher initial earnings for salary growth prospects,” says Kim. “Debt relief programs are important because they help workers to move on to better-suited positions. We believe that these results are not only relevant for student loans in the US, but also for other types of debt and other countries. Policymakers should take these findings into account when deciding on education subsidies, debt relief and career advice programs in the future.”

# PRESS RELEASE

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here: <https://www.crctr224.de/research/discussion-papers/archive/dp635>

Find the list of all discussion papers of the CRC here: <https://www.crctr224.de/research/discussion-papers>.

## Authors

**Titan Alon**, Assistant Professor of Economics, University of California San Diego

**Natalie Cox**, Assistant Professor of Economics, Princeton University

**Minki Kim**, Assistant Professor of Economics, University of Mannheim and member of EPoS Economic Research Center

## The Collaborative Research Center (CRC) Transregio 224 EPoS

Established in 2018, [the Collaborative Research Center Transregio 224 EPoS](https://www.crctr224.de), a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

## Press Contact

econNEWSnetwork

Sonja Heer

Tel. + 49 (0) 40 82244284

[Sonja.Heer@econ-news.de](mailto:Sonja.Heer@econ-news.de)

## Contact

Minki Kim

[minki.kim@uni-mannheim.de](mailto:minki.kim@uni-mannheim.de)

CRC TR 224 Office, Marja Eisheuer

phone | +49 228 737926

email | [crctr224@uni-bonn.de](mailto:crctr224@uni-bonn.de)

[www.crctr224.de](https://www.crctr224.de)