Drowning in Debt: Why Graduates Are Choosing Money Over Public Service

by Zach Friend and Scott Collins

Media coverage this past year has highlighted the oft-ignored reality of burgeoning student debt. But one aspect that is generally ignored by policymakers and the media alike is the connection between student debt loads and career choices. The results are predictable: burdened with crushing debt loads, graduates seek higher-paying professions, often in the private sector. Put simply: if you are saddled with debt, you will shy away from lower-paying, entry-level public service positions.

Loan debt has skyrocketed over the past 10 years. According to the most recent data from the National Loan Survey, debt amounts for students in the United States increased by at least 66 percent in the past 10 years, with the average debt increasing by more than $7,000. Increasing tuition costs, reduced federal and state aid, and growth in higher-cost private loan debt have all contributed to this problem.

The California Office of Postsecondary Education estimates that fees for in-state students at the University of California are 350 percent higher than they were in 1990. Nationwide, similar upward trends have been met with relative apathy on the part of most federal policymakers. In fact, the past few years have seen steady attempts to attack federal education subsidies.

While tuition costs have increased at double and triple the rate of inflation, until recently federal aid in the form of Pell grants and loans has flattened or been reduced. Most state policymakers have decreased allocations to state colleges and universities in an effort to balance their budgets. Stagnating federal and declining state aid has required that a growing number of students take out private loans with higher interest rates to supplement federal loans.

Concurrently, baby boomers are set to retire, which is expected to result in a human resource crises, but the knowledge of significant retirements in the public sector is not likely to be of great interest to talented young employees. Saddled with massive debt, those talented and well-educated young people are precluded from even considering a public interest position. Thus, a replacement gap started in 2006 and continues today. With an estimated 151 million jobs in the U.S. economy, the U.S. Bureau of Labor Statistics reports there are only about 141 million people in the workforce to fill them. While all sectors of our economy are feeling the pinch, it is especially evident in the public sector.

A 2006 report by the U.S. Government Accountability Office, titled "Human Capital: Selected Agencies Have Opportunities to Enhance Existing Succession Planning and Management Efforts," concluded that more than 50 percent of middle- and upper-level public sector managers will be eligible for retirement in 2007. It is estimated that there will not be sufficient Gen Xers or Millennials to fill the impending vacancies. This problem is exacerbated, in large part, by the fact that many Americans, particularly those of the younger generations, perceive government work as bureaucratic and dull.

Of those who find government work appealing, the number willing to take lower-paying jobs in the public sector in the face of growing student debt is declining.

MORE AND MORE DEBT

In today's competitive job market, those students interested in pursuing a career in the public sector feel just as compelled as their counterparts seeking private sector jobs to acquire graduate, professional, and law degrees. With advanced degrees, however, comes greater student loan debt.

According to the Partnership for Public Service, a federal program aimed at bolstering interest in federal jobs, debt loads for master's degree candidates have *tripled* since 1993, to \$30,000; for Ph.D. candidates, debt has *quadrupled* to \$45,000; and for those with professional degrees, it has more than *doubled* to \$65,000. These increases have been met with federal loans that cover a mere \$17,125 over four years.

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To cover the remaining tuition and room and board, students turn to private loans that, unlike federal loans with their current 6.5 percent rate of interest, carry variable interest rates that can soar into the credit card range—20 percent. A typical college graduate is \$19,000 in debt; attending graduate school for a master's degree will add an additional \$30,000.

After obtaining a master's degree, a typical student will have accumulated approximately \$50,000 in loan debt; \$10,000 of that, at a minimum, will be in private loans. Six months after graduation, that student will begin to owe approximately \$700 per month—for the next 15 years! On an annual salary of \$40,000 (average public sector, entry-level position), \$700 is 28 percent of an average graduate's after-tax monthly income! The pre-tax number is 21 percent of income, and this percentage is even higher once taxes are factored in.

The Partnership for Public Service notes that 66 percent of law students graduate with more than \$100,000 of debt. Policy and public administration graduates face similar levels of debt. No wonder elite policy and law schools across America are seeing a growing number of their students pursue private sector jobs. A generation ago, almost three-quarters of graduates of public policy and public administration programs went to work for government. In recent years, only about half have chosen public service.

Even the prestigious Kennedy School of Government at Harvard University has witnessed these trends. Overall, public sector employment for its graduates has steadily declined from 55 percent in 1988 to about 34 percent in 2000. At the state and local levels, the numbers are far more discouraging.

In 1988, 13.5 percent of Kennedy School graduates took state jobs while 10.4 percent accepted jobs with local governments. In a matter of 12 years, those numbers had declined to 1 percent and 6.5 percent, respectively. Quite simply, private sector positions offer greater financial rewards to students facing large debt payments.

GROWING WAGE DISPARITY

Phil Primack writes in "Private Gain, Public Loss" that many students have found other outlets for their public service orientation, many of which offer greater financial compensation. This is a function of the growing wage disparity between the public and the private sectors for entry-level jobs.

"In 1970, when starting teachers in New York City made just \$2,000 less than starting Wall Street lawyers, people who wanted to teach, taught," Daniel Brook, a noted author on the subject, explains in *The Trap*. "Today, when starting teachers make \$100,000 less than starting corporate lawyers and have been priced out of the region's homeownership market, the considerations are very different."

Joseph A. Ferrara, a professor from the Georgetown Public Policy Institute, notes that a master of public policy (MPP), master of public administration (MPA), or law graduate accepting a Presidential Management Fellowship in the federal government will start with an average salary around $40,000, with comparable salaries found in state or local government. That same graduate, however, might receive a starting salary offer of $60,000 from a private consulting firm or $125,000 from a private law firm.

The increase in graduates' debt load is a threat to federal, state, and local government's ability to recruit and retain top talented employees. Local governments, similar to state governments and the federal government, simply cannot compete with the private sector in the recruitment of talented employees. Paul Brinkley, career adviser for George Washington University's School of Public Policy and Public Administration, notes that choosing a higher-paying position in the private sector is a function of student debt loads.

This situation led Paul C. Light, author of *The New Public Service,* to lament: "Ultimately, effective governance is impossible if government cannot attract talented citizens to serve at all levels of the hierarchy."

SOLUTIONS

Fortunately, policy options exist that can help remedy this situation. The following are proposals that work within current policy parameters and do not create any new significant bureaucratic programs. From a recruitment—and economic—standpoint, incentives are the key.

The first method of expanding the public sector workforce would be a two-pronged approach: enhancing appropriations and improving tax incentives. Specifically, this option would expand appropriations for the student loan repayment program to cover state and local government employees as well as provide tax incentives that make public sector employment more attractive. The goal would be to cover as many public employees as possible, including police officers, firefighters, and teachers, while providing both an educational and financial incentive to join the public sector.

The tax incentive program would hinge on the ability of state and local governments to create tax-deferred compensation programs through section 457 of the U.S. tax code. This allows for money to be automatically deducted from an employee's paycheck on a pre-tax basis. The same model could be applied to federal student loan debt. All public sector employees would have the opportunity to pay off their federal student loans automatically with pre-tax money.

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The resultant benefit is twofold: employees would receive a direct economic benefit from the reduction in taxable gross wages, and public agencies could advertise a significant financial recruitment benefit. In addition, it is conceivable that the default rate, although already low, would drop even lower as debtors would be less likely to default on automatic payments. Thus, lower tax revenues to the U.S. Treasury would be partly offset by the reduction in defaults.

The second proposal involves increased federal appropriations to cover loan repayments for public sector employees. Again, this does not need to be an expensive program, and it does not need to create any undue bureaucratic burden. Costs could be minimized by phasing out reimbursement rates as incomes encroach on private sector rates, but the tax incentive could be maintained regardless of income. It would be essential to work with currently established tax and educational incentive channels to minimize bureaucratic costs.

Reimbursement rates could be standardized for ease of distribution and to provide a relative incentive to accept lower-wage public positions. As with any programmatic expansion, there are bound to be economic costs and potential benefits. In this case, initial economic costs should be outweighed by the long-run benefits of well-educated workers entering the public sector and their increased disposable income.

The third policy concept focuses on universities shouldering more responsibility. Currently, some schools have loan forgiveness programs for students who enter public service or loan reimbursement programs for graduates who seek public interest careers. These programs are an excellent start but are neither common enough in number nor adequate enough in reimbursement rates.

Often these programs, the vast majority of which are at high-priced private institutions, have low phase-out rates, meaning unreasonably low salary caps preclude meaningful participation. Universities, public and private, need to make a commitment to students who work in public service.

Finally, income tax deduction caps, currently set on an annual income of $60,000 for a single and $120,000 for a family, need to be increased. As the wage gap between public and private employment grows, the income tax deduction of loan interest needs to be increased to lessen that gap—even at higher income levels. This will provide those in public service with a longer-term incentive to stay in the public sector, and middle-level and executive managers will not leave the field as their incomes increase.

It is our belief, and that of many

experts, that student loan debt poses a threat to the continuity of leadership in governments at all levels. The federal, state, and local governments in the United States need to recruit top talent, particularly from top law, policy, and public administration schools, to ensre their viability.

More important, the country as a whole benefits when its government ranks are filled with the best and the brightest. This problem has no quick fixes; it will take a combination of solutions to make possible greater participation in the public sector by civic-minded young professionals. **PM**

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