Diversity and the Demographic Dividend: Achieving Educational Equity in an Aging White Society

The United States is facing a unique moment in its demographic history, for two reasons. First, as the third largest nation in the world, behind prosperous China and India, the United States has a vital resource that gives it a productive advantage over its industrialized peers—namely, people. In contrast with several western European nations that have been coping with the challenges of below-replacement fertility for several years, the United States sees its population continue to grow, albeit slowly, owing to high levels of both immigration and fertility. Population growth replenishes the labor force with new workers, but in today's global economy, the quality of workers matters as much as the quantity.

Second, because of the increased salience of migration as a component of population growth, the U.S. population is among the most diverse in the world. When its white non-Hispanic population fell below 50 percent, Texas became the fourth state to be declared a "majority minority" state, joining California, New Mexico, and Hawaii. Population diversification will continue well into the future, even as immigration ebbs, because a larger share of new births will be to foreign-born women. Not only were immigration and births to immigrant women responsible for about 60 percent of demographic growth during the 1990s, but currently white women have below-replacement fertility, whereas the total fertility rate of Hispanic women is around 3.1. Although immigration outpaced births as a component of Hispanic population growth during the 1980s and 1990s, during the first decade of the twenty-first century Hispanic births were projected to surpass net immigration from Latin America by approximately 1.6 million.

The components of demographic growth have direct implications for changes in the sizes of the labor force and the school-age population and for old-age dependency burdens. In 2005, for example, the U.S. Bureau of the Census announced that school enrollment surpassed the previous all-time high of 48.7 million set in 1970 by the baby boom generation. The recent school-age population bulge, produced largely by high immigrant fertility, represents a potential demographic dividend that can help assuage population aging, but that dividend can be realized only with appropriate educational investments. Viewed as returns on an investment portfolio, dividends reaped from population growth depend crucially on the caliber of investments made throughout the educational career, but especially during the early years.

That the most ethnically diverse youth cohorts in U.S. history are coming of age with an aging white majority also poses formidable social and policy challenges because, on average, the fastest growing cohorts are more likely to have parents with little education and lower incomes than are the cohorts they are replacing. Census 2000 revealed that the median age of the population reached a new high of 35.3 years, rising 2.5 years since 1990. The challenges of population aging could become acute as the baby boom cohorts increase their dependency on the Social Security earnings of the young, especially if racial and ethnic educational gaps are not closed. At the same time, the costs of underinvesting in education pose a serious risk not only to youths themselves—because the returns on investments in schooling are higher now than in the past—but also to a nation facing greater international competition for goods, services, and highly qualified labor.

We argue that the demographic dividend afforded by the modest but transient minority age bulge will be lost if the nation's investment priorities are

1. The United Nations estimates the U.S. total fertility rate at 1.9, but the CDC's National Center for Health Statistics puts it at 2.1.
4. Kosko, O'Prymor, and Brown (2006); Taylor and others (2002, fig. 2.2).
5. Tienda and Mitchell (2006, fig. 2-3).
Demography of Diversification

Three overarching trends characterize the changing demography of the total and the school-age population in the United States over the past half century: racial and ethnic diversification, the growth of the foreign-born population, and the growing concentration of minority students in large central cities.11 All three have profound implications for the future contours of educational inequality, and consequently for economic disparities. The relatively recent geographic dispersal of immigrants to new, Southern destinations adds yet another layer of complexity to the challenge of equalizing educational opportunity, both because of the intensity of the flows and because many school districts in the South are ill-equipped to handle students who speak limited English.12

Ethno-racial diversification is largely a post–World War II phenomenon that gained momentum after 1970. The composition of the U.S. population changed little during the first half of the twentieth century; whites made up about 88 percent of the total, and blacks were the dominant minority group during this period of relatively slow demographic growth.13 Although population diversification began to unfold during the 1950s, as recently as 1970 whites composed nearly 84 percent of the national population (table 3-1). In that year Hispanics were estimated to make up fewer than 5 percent of the total population, with blacks accounting for roughly 11 percent. Triggered by changes in U.S. immigration laws, U.S. population diversification accelerated during the 1980s and 1990s.

Census 2000 recorded the largest "minority" population in U.S. history—28 percent of the total—with blacks and Hispanics each accounting for more


### Table 3-1. Composition of Total and School-Age Populations, 1970, 1990, and 2005

<table>
<thead>
<tr>
<th>Group</th>
<th>Total population</th>
<th>School-age population</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>83.6</td>
<td>75.7</td>
</tr>
<tr>
<td>Black</td>
<td>11.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Hispanic</td>
<td>4.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Asian</td>
<td>0.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Otherb</td>
<td>0.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Sources: U.S. Census 1970 (www.census.gov/population/www/documentation/twps0029/twps0029.html);

a. Based on intercensal estimates.
b. Includes Native Americans and "other races not allocated."

d. Although the Asian population share continued to rise over time, from around 1 percent in 1970 to more than 4 percent by 2005, the main story since 1970 has been the dramatic growth of the Hispanic population. In 2003 the Census Bureau announced that Hispanics had surpassed blacks as the largest minority group and projected their share to rise well into the current century. By 2030 some 40 percent of the U.S. population is projected to be black, Hispanic, or Asian.14 Beyond its historical significance, this shift in the demographic makeup of the population has profound implications for future labor force productivity and global competitiveness, because Hispanics have, on average, lower levels of education than both African Americans and Asians.

The relative youthfulness of minority populations, especially Hispanics, means that they will drive future demographic growth. The school-age population already is more diverse than the total population, particularly in the major immigrant-receiving states. This is because larger shares of minority women are in their reproductive years than are non-Hispanic white women.
and because the fertility rate of white women is lower than that of minority, especially foreign-born, Hispanic women.16 Demographers project that population diversification will continue well into the current century as fertility overtakes immigration as the major component of demographic growth.17 Notwithstanding uncertainty about the future course of undocumented immigration, legal immigration already has begun to fall and is expected to continue on a downward path as fertility declines and the baby boom generation retires. By 2030 the system will depend on the productivity of youths currently in school.

The sea change in the ethnic-racial composition of the school-age population acquires added significance because it coincides with equally profound shifts in the occupational distribution of the population from rural to urban and suburban areas; an industrial transformation of employment away from unskilled, blue-collar jobs to service jobs requiring higher skill levels; and a bifurcated skill distribution among new immigrants. Immigration dropped precipitously after 1930, and by 1950 only 7 percent of the U.S. population was foreign-born; the percentage dropped further to 3 percent by 1970.18 After the 1965 amendments to the Immigration and Nationality Act lifted quotas on previously barred countries, the volume of immigration began its steady ascent, and the region of new arrivals changed from Europe to Asia and Latin America. The foreign-born share of the U.S. population climbed to 12 percent in 2003, double its 1980 share.19 With legal and illegal immigrants topping 14 million, the 1990s registered the highest level of immigration in U.S. history, but continuing recent trends, the first decade of the twenty-first century is likely to reach a new zenith.20

Reflecting the change in the source countries of immigrants since 1960, the foreign-born share of Asian and Hispanic minorities rose faster than that of whites. As figure 3-1 shows, approximately 16 percent of all Hispanics were foreign-born in 1960, but this share had more than doubled by 1990 and increased to 40 percent over the next decade. The effect of recent immigration on the Asian population is even more striking. Before the recent surge in immigration, one in three Asians was foreign-born; by 1990 this share had roughly doubled, and by 2000 it had risen to 70 percent. The foreign-born share of the non-Hispanic white population hovered around 5 to 6 percent throughout the period, but the black share rose gradually over the second half of the twentieth century, largely involving immigrants from the Caribbean.

International migration disproportionately involves persons of working age. The Migration Policy Institute reports that nearly half the growth in the U.S. labor force during the 1990s was due to new immigrants, and it projects that net growth in the domestic workforce over the next twenty years will primarily involve foreign-born workers.21 Although only 7 percent of the foreign-born population is under 15 years of age, international migration contributes to the future labor force through the reproductive behavior of foreign-born women, which is manifested in the generational transition of ethnic-racial groups. As figure 3-2 shows, however, substantial shares of the Asian and Hispanic school-age population are either immigrants or children of immigrants. In comparison with Hispanics, a larger share of the Asian school-age population is foreign born, but because the Asian population is appreciably smaller, there are more than three times as many foreign-born Hispanic as Asian

youths. Overall, the Hispanic school-age population is 4.6 times that of its Asian counterpart. Thus the importance of immigration for future labor force growth will increasingly depend on the children of immigrants, the fastest growing segment of the U.S. population.

These ethnic-racial differences in the generational composition of the school-age population are important because they signal educational needs that depend partly on parents' educational status and English proficiency and partly on the unequal educational opportunities associated with settlement patterns. Rubén Rumbaut reports that 51 percent of non-Hispanic foreign-born persons age 5 and over who spoke a language other than English at home were proficient in English, in comparison with only 30 percent of Hispanics. Disadvantages in English proficiency dissipate by the second generation, in which three in four persons who reported speaking a language other than English at home claimed proficiency in English. Whether and by how much these differences undermine educational achievement remains highly controversial, because English proficiency is often conflated with bilingualism, which in a global economy represents an asset to be cultivated rather than a liability to be diminished. Bilingualism becomes problematic only when proficiency is not achieved in either language. Moreover, group differences in English proficiency conceal considerable variation by length of U.S. residence, age at arrival, and parental educational attainment. Second-generation Asian youths have a marked advantage over their Hispanic counterparts because their parents, on average, possess higher levels of formal schooling and because they are less residually segregated in large, urban schools.

Historically, six states—California, Texas, Florida, New York, New Jersey, and Illinois—have served as hosts to the majority of the foreign-born population, although the first four receive the largest number of immigrants now, whereas the last two were dominant historically. Given the salience of immigration in the diversification of the school-age population in these states, a few indicators help to denote the risks of educational underinvestment and opportunities to capitalize on the minority demographic dividend. For example, the four largest immigrant-receiving states rank in the lower half of all states on the basis of their overall and child poverty rates as well as their high school graduation rates. In 2003 California, Florida, and New York were tied for 34th place in their child poverty rates, and Texas ranked lower still—43rd out of 50 states. Using a cohort-derived index to estimate high school graduation rates, Christopher Swanston ranked California 31st, Texas 37th, New York 49th, and Florida 50th. These indicators do not bode well for the educational prospects of the swelling school-aged minority populations of these states, which will shoulder the burden of the aging baby boom generation.

Although per capita education spending does not guarantee quality instruction, in 2003 only New York ranked above the national average in expenditures per pupil in public elementary and secondary schools. California, Texas, and Florida ranked 27th, 34th, and 43rd, respectively. Yet except for Florida, which according to estimates by the State Science and Technology Institute ranked 38th in gross state product per capita in 2003, three of these immigrant-receiving states hardly qualify as poor: New York ranked 5th, California 12th, and Texas 22nd. Together these four states hold one-quarter of

28. State Science and Technology Institute (2005). As the size of all non-industrial activity within a state, Gross State Product is a measure of the “value added” by a state's economy.
the seats in the U.S. Congress, which represents significant political power deriving from their population size. Whether this political asset will be converted into an economic asset depends on educational investments in future generations.

Taken together, recent trends in the demography of the school-age population pose both opportunities and formidable challenges for the nation, not because diversity per se is problematic but because diversification coincides with rising economic inequality, and Hispanic and black youths are more likely to be poor and to have parents with low education levels. Linguistic diversity may temporarily stymie school systems unprepared to educate large numbers of foreign-born students, but it need not become a source of enduring inequality, particularly for students who enter the U.S. educational system at young ages.

Although bilingualism is often blamed for educational underachievement, our practical experiences indicate that this underachievement signals difficulties in the ability of parents to provide strong links between their children and the schools they attend, rather than the ability of youths to learn English, especially at the lower grades. Put differently, it is not that immigrant parents do not value education; rather, their limited communication skills significantly reduce their ability to engage with the school system and to provide help with homework and school activities. More than length of U.S. residence or age at arrival, parental education is the single most powerful indicator of English mastery and scholastic success.

If language diversity was the main reason for the academic underachievement of minority youths, then Asians, too, would score lower than whites on standardized tests, because, in comparison with Hispanics, a larger share is foreign born. In fact, white, black, and Asian youths enter the school system at very different starting lines. This is clearly evident in the large differences in math and reading scores of minority and nonminority children upon arrival at the schoolhouse. Even before entering first grade, Asians outperform whites and, especially, blacks and Hispanics. Rather than linguistic diversity, these differences reflect large social and economic gaps that exclude significant numbers of minority students from the resources associated with high socioeconomic status.

Trends in the living arrangements of children further aggravate the achievement gap. The share of youths living with one parent more than doubled from

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1970 to the present, and although the figure has leveled off in the past decade, 30 percent of all children did not live with two parents as of 2003. Yet this overall change conceals large differences by race and Hispanic origin. In 1970 fewer than 10 percent of white children and just over one in four black children lived with a single mother. By 2003, 22 percent of white children, 34 percent of Hispanic children, and 62 percent of black children lived with a single parent. Parental absence places youths at high risk of educational failure and behavioral transgressions, largely because these children are more likely to be poor. Youths reared in poverty are significantly more prone to scholastic underperformance and low educational attainment than their counterparts in affluent families.

Trends in poverty are both encouraging and troubling. Apparently the robust economy of the late 1990s did more to reduce poverty than a decade's worth of antipoverty programs; by 2000 child poverty rates had fallen to their lowest level since 1975. Yet racial and ethnic differentials in child poverty rates have proved resistant to change. In the mid-1970s, a black child was four times as likely as a white child to be poor, and a Hispanic child, three times as likely. Although the racial and ethnic gaps in child poverty narrowed slightly during the 1980s, absolute rates rose, especially for Hispanic youths. The upturn in child poverty after 2001 reveals the vulnerability of youths to economic cycles and the weak safety net above which the near poor balance. It may also reflect the lower levels of education and income of recent influxes of Hispanic immigrants.

If all K-12 schools offered quality instruction, then urban and suburban residence would merely reflect lifestyle choices. Unfortunately, this is not the case, and several scholars have reported evidence of rising school segregation. Indeed, the distribution of minority students among urban, suburban, and rural schools has become more unequal over time, such that black and Hispanic students are more likely not only to attend highly segregated schools but also to delay school entry and to withdraw prematurely. It is estimated that in 2000 most black and Hispanic students attended segregated schools in which two out of three were either better or worse off, further, 88 percent of the students enrolled in hypersegregated minority schools (that is, with fewer than 10 percent white students) were poor, in comparison with only 15 percent of students attending equally segregated white schools. Even

32. Schneider, Manierre, and Owen (2006).
36. Fry (2003); Orfield and Lee (2004); Reardon and Yun (2001).
37. Schneider, Manierre, and Owen (2006).
as minority youths become more suburbanized, their changes of enrolling in segregated schools are significantly higher than those of white youths. For example, Reedon and Yun showed that schools located in Southern metro counties were 40 percent less segregated than housing markets in 1990, but a decade later the schools were only 27 percent less segregated.

The pernicious effects of school segregation stem from its divisive class underpinnings, namely, that schools in which minorities are disproportionately concentrated are poorer, on average, than predominantly white schools. Resource-poor schools have more unqualified teachers and offer fewer remedial courses and fewer advanced placement courses. Hence their students—disproportionately black and Hispanic—fare poorly on standardized achievement tests and are less likely to graduate. According to Christopher Swanson, graduation rates for central city high schools averaged 58 percent in 2001, in comparison with 73 percent for suburban schools.

The long-term social and economic significance of population diversification depends crucially on changes in the educational attainments of students currently enrolled and those completing their education before 2030, by which time the U.S. age structure will begin to stabilize. Because socioeconomic differences among families are the major sources of inequality in student performance, closing achievement gaps requires targeting economically disadvantaged students at very young ages. Whether the growing number of school-age children will be prepared to sustain the rising service needs of baby boom retirees depends on the educational investments made over the next decade, and especially on progress in closing test score gaps in the early years. As we show in the following section, the news is both encouraging and disturbing.

Trends and Differentials in Educational Attainment

According to Cox and Alm, in 2000 the United States led the world in the average number of years of school completed per capita—12.3 years. Trends in both high school graduation and college completion contributed to the high average attainment level. Currently, 26 percent of persons ages 25 and over and 29 percent of this group—the 25- to 29-year-olds—are college graduates. As the turn of the twentieth century only about 2 percent of the adult population

40. Schneider, Martins, and Owens (2006); Swanson (2003).
41. Swanson (2003), table 7.
42. Heckman (2006); Kreiderman and others (2006).

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Figure 3-3. Attainment of Postsecondary Education, by Country, 2002

Canada and Japan surpassed the United States in their shares of college-educated young adults.

Moreover, the United States does not hold the top rank in quality of educational outputs or broadened access. Despite higher expenditures per student, the United States is losing ground to other industrialized nations in terms of students' performance in math and science. Haveman and Sneering claim that if U.S. colleges and universities had increased their postsecondary graduation rate during the 1980s and 1990s, they would not only have served larger shares of low-income youths but also weakened the link between socioeconomic status and postsecondary education. Indeed, Peter Sacks has argued that the chances of a low-income child's obtaining a bachelor's degree has not changed in decades; in both 1970 and 2002, only 5 percent of students from the lowest-income families earned college degrees. 45

Aggregate trends in school attainment provide signs of hope, because educational levels have risen steadily for all demographic groups during the period of massive ethnic-racial diversification. Recent trends, however, also highlight vexing problems that bear directly on the social costs of inadequate education, notably widening disparities between whites and Hispanics, blacks, and Native Americans. 46 In particular, rates of noncompletion of high school remain unacceptably high, particularly for Hispanic youth. Between 1972 and 2003 the high school status dropout rate for whites was cut from 14 to 8 percent, and that for blacks was nearly halved, from 28 to 15 percent. 47 Although the Hispanic status dropout rate also declined 14 percentage points over the period, from 44 to 31 percent, the 2003 rate for Hispanics was double that of blacks and nearly four times that of whites. 48 Status dropout measures have been criticized on the grounds that many foreign-born Hispanics who lack high school diplomas never attended U.S. schools. 49 But measures based on single-year periods for enrolled students also reveal that Hispanics and blacks are more likely than whites to discontinue their schooling before achieving a diploma. 50

Given the changing demographics of the school-age population and the influx of large numbers of unskilled immigrants since 1970, improvements in high

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school and college graduation rates are heartening. Yet persisting differentials are worrisome, because they imply intergenerational reproduction of inequality over time. Using time as a metric, as of 2000 the Hispanic high school graduation rate was almost three decades behind that of whites (see figure 3-4). In that year, 57 percent of Hispanics ages 25 and over achieved high school diplomas, whereas 55 percent of whites did so in 1970. Although unskilled immigration may exacerbate Hispanics' educational attainment gap, it does not explain why African Americans with high school diplomas trailed whites by more than a decade through the beginning of the twenty-first century.

Similarly, in higher education there is much progress to celebrate. College-going rates are at an all-time high for every demographic group, and the number of postsecondary institutions available to promote this trend continues to grow. Yet despite steady gains, race and ethnic differentials in college graduation rates not only are larger than those for diploma holders but are widening over time. Only 11 percent of Hispanics ages 25 and over were college graduates in 2000, a rate comparable to whites thirty years before. Throughout the period Asians stand out as the most highly educated U.S. racial group, with 83 percent achieving baccalaureate degrees as of 2000. Partly this reflects the fact that the majority of immigrants from Asia entered under occupational preference visas, which are highly selected toward advanced degrees. Latin American immigrants, by contrast, gain admission under visas allocated for family reunification and tend to have low levels of education. 51 Thus Asian immigration adds to the college-trained population, but newcomers from Latin America mainly swell the ranks of persons lacking high school degrees.

Although the college-educated population also is now more diverse than ever before, today's college graduates look the way the U.S. population did in 1970, with whites making up 82 percent of degree recipients. The key difference is that Asians, who made up a tiny share of the 1970 population and only 4 percent of the 2000 population, represent 7 percent of degree holders today. African Americans represent only 6 percent of college graduates—less than half their population share—and Hispanics make up only 4 percent of the college educated, or about one-third their population share. 52 We are not suggesting that proportionality should be used as a measure of social justice, but rather that these disparities will likely widen as the minority share of young cohorts continues to rise.

Population comparisons underestimate Hispanics' educational progress because they include large numbers of immigrants who never studied in the United

47. The status dropout rate measures the percentage of 18- through 24-year-olds who are not enrolled in high school and who do not hold a high school diploma or GED equivalent.
50. Shle (2005, table D). These dropout rates are comparable to comparisons with Swann's (2005, table 3) estimates based on the cumulative promotion rates, which imply an average dropout rate of 32 percent. The range was from around 30 percent for blacks, Hispanics, and Native Americans to 25 percent for whites and Asians.
52. Tienda (2002).
States, they confine the changing educational attainments of successive cohorts by averaging the lower attainments of older generations with the higher achievements of successive cohorts. Comparisons in educational attainment across "generations" better portray educational progress. Census data provide an approximate measure of generational status, where the foreign-born represent the first generation, the native-born offspring of foreign-born parents represent the second generation, and the native-born offspring of native-born parents represent third and higher-order generations. This metric provides strong evidence of educational progress, as Hispanics more than doubled their college enrollment rates between the first and second generations (figure 3.5). Still, second-generation Hispanics were only half as likely as their Asian and black counterparts to enroll in college in 2000. This disparity could be magnified in the future because children of Hispanic immigrants are the fastest growing segment of the youth population and bail disproportionately from

54. Salopek (2003). Still, the pattern of differential is relatively similar if the focus is reoriented on a young cohort, such as persons aged 25-34, or to a cohort of recent graduates. See Tienda (2006).
families with limited economic resources. Thus, despite clear evidence of educational progress among second-generation Hispanic youths, the continued educational advancement of Asian, white, and black students results in larger college enrollment gaps over time.  

Large differentials in college enrollment rates reflect socioeconomic differences—mainly disparities in parental education—but also values that do or do not make educational attainment a priority for both parents and their children. Even among families of low socioeconomic status, almost 80 percent of Asian youths enroll in college, in comparison with about 30 to 40 percent of others. At the other extreme of the socioeconomic distribution, college enrollment rates do not differentiate among whites, Hispanics, and Asians, although high-status blacks are significantly less likely to enroll in college than their counterparts. These differentials indicate that for Hispanics, ameliorative policy measures, such as use of race-sensitive admission criteria and policies that diminish the financial burden of college, will likely narrow the college enrollment and graduation gaps vis-à-vis whites.  

Recent trends in financial aid, however, are not encouraging. Policy choices made in the late 1970s redirected financial aid away from the neediest students, toward those in middle income groups, and eventually toward upper income students. Enrollment differentials among the high-status groups suggest that a one-size-fits-all financial aid policy may not have uniform effects on blacks and Hispanics from disadvantaged backgrounds.  

Parental education is essential to promoting educational success because it drives the expectations parents set for their children and the resources they invest to promote their offspring's achievements. Yet parental education not only is less amenable to policy lever but also inefficient as a policy instrument to achieve social equity.  

Owing to the low average educational level of recent Hispanic immigrants, the burgeoning Hispanic school-age population is clearly the most disadvantaged in this regard: only 10 percent of Hispanic youths had college-educated fathers in 1999, a share barely changed since 1974, by contrast, one in three white youths had college-educated fathers in 1999, as did half as many school-age blacks.  

Data for mothers tell the same story, except that the scenario is even bleaker, because fewer mothers than fathers attain college degrees.  

The priority policy challenge, then, is to narrow achievement gaps for low-income youths at all stages of the educational pipeline, but particularly during early childhood, in order to weaken the link between social class and minority group status. To what extent low levels of parental education will slow intergenerational mobility in the future is unknown. George Borjas cautions that the rate of social mobility enjoyed by prior immigrants will not continue, because unlike the manufacturing jobs filled by the foreign born at the turn of the twentieth century, the economic sectors in which contemporary immigrants are employed do not provide avenues for economic betterment.  

Although it is common to blame slow improvement in Hispanics' high school and college graduation rates on the drag of low-skill immigration, doing so deflects attention from inadequate investments in educational institutions. Underinvestment in early childhood education is particularly important, because a growing body of neurobiological, economic, and behavioral evidence indicates that social equity can be achieved most efficiently by reducing achievement gaps during early childhood. Keudtner and associates argue that the most cost-effective strategy for strengthening the American workforce is to strengthen the cognitive environments of the most economically disadvantaged, who have the most to gain because their social environments are least likely to provide the stimulation that is necessary to prepare the brain architecture for later learning.  

The large immigrant-receiving states have the most to gain in future labor force productivity. With immigrant fertility driving population growth in these states, their age structure is more bottom heavy, which implies an important opportunity to capitalize on the demographic dividend. A few illustrations dramatize these points while strengthening our case for the urgency of harnessing the demographic bonus via educational investment.  

Reflecting the baby boom "echo," Figure 3-6 shows that the number of high school graduates nationally increased 19 percent between 1994 and 2004, but this average conceals wide variation among states. Despite elevated high school dropout rates in Texas, California, and Florida, rapid growth of the school-age population, combined with improved graduation rates, resulted in larger cohorts of high school graduates—in Texas, double the national average. New York, on the other hand, lagged far behind.  

The sizable growth in the college-eligible population is projected to slow over the decade from 2005 to 2015 as the children of baby boomers move
through the educational pipeline. Nationally the number of high school graduates is projected to grow a measly 3 percent between 2005 and 2015, and many states will witness shrinking cohorts of high school graduates during that time. Three of the major immigrant-receiving states, California, Texas, and Florida, are notable exceptions (figure 3-6). On the basis of demographic projections and current completion rates, New York State is positioned for a decline in the number of high school graduates. This case attests that the window of opportunity to harness the demographic dividend by investing in youth will close soon, as the age structure stabilizes in line with the contours of stable population growth.

In fact, neither Texas nor California has made sufficient investments in postsecondary education to keep pace with growth in the college-eligible population. Given the changing composition of demographic growth, it is not surprising that opposition to affirmative action has been particularly virulent in these states. Texas's experience provides an apt illustration of the point. Although college enrollment in the state also increased as the number of high school graduates swelled, the expansion of postsecondary opportunities failed to keep up with growing demand, particularly at four-year institutions, which created a college squeeze for access to the most competitive institutions. Specifically, between 1994 and 2004, enrollment in Texas postsecondary institutions, both two- and four-year, rose 27 percent. This is above the national trend but still well below the 40 percent increase in the number of high school graduates. The Texas college squeeze would have been even more intense if the state had not lost 25 to 50 percent of its high school students before graduation.

The diversification of Texas's college-age population added complexity to the college squeeze, which played out in public discourse as growing resistance to the use of race preferences in college admissions, but it was not a causal factor. Educational underinvestment is seldom invoked as the culprit for the rising number of applicants denied admission to a four-year institution in the state, yet it is the ultimate cause of the college squeeze and a source of economic vulnerability for the state in the future. Comptroller Carole Keeton Strayhorn estimated a 500 percent return on every dollar invested in the state's higher education system. Put differently, underinvestment in higher education represents a formidable opportunity cost for the state.

Reaping the Demographic Bonus in an Aging White Society

With fertility declining throughout the world, even in large immigrant-sending nations such as Mexico, the opportunity to capitalize on the demographic bonus is time bound. The United States risks in future by not reaping the potential dividends of the current modest age bubble attributable to above-replacement immigrant fertility. The social and economic significance of changing population composition depends crucially on educational investments in today's school-age cohorts, which are far more diverse than the baby boom cohorts approaching retirement. Specifically, the next twenty-five years represent an opportunity unshared by America's industrialized peers to secure the future by capitalizing on a demographic bonus afforded by the modest bulge in the size of the school-age cohort. That bonus will fade as fertility declines and the size of future cohorts.

Figure 3-7 maps diversification onto the changing age structure resulting from projected fertility decline and immigration retrenchment. In the year

64. Tienda (2000).
2000, just over half the U.S. population was between the working ages of 25 and 64, but whites outnumbered minorities by a ratio of 3.5 to 1. At the postretirement ages, the ratio of whites to minorities was 10 to 1. Because of aging, the working-age population is projected to fall to 40 percent of the population by 2030, with the white-to-minority ratio falling to about 2 to 1. By that year, the retirement-age population will approach 20 percent, of which the vast majority will be white. For rapidly growing states such as Texas, California, and Florida, the potential demographic dividend is even greater and the time line a bit longer, but greater too is the risk of underinvestment.

Whether the growing youth population will contribute to economic productivity or become a drag on social resources hinges crucially on policy decisions to bolster educational investments, at both the preschool and postsecondary levels, particularly for economically disadvantaged youths. Improving educational outputs based on math and reading scores, high school graduation rates, and college graduation rates is imperative in order for the United States to prevent expected demographic shifts from deepening class divisions and eroding international competitiveness in math and science. As Samuel Preston pointed out in his presidential address to the Population Association of America in 1984, declining fertility and population aging could produce a collision course in social investment priorities and dramatically alter the profile of economic well-being by age, especially if transfers to the elderly came at the expense of children.

There are several mechanisms through which this last scenario can operate. One is the Social Security income transfer from workers to retirees. The economic future of retirees requires that new labor force entrants contribute the maximum to the Social Security system, which can best be achieved through human capital investments. Another mechanism is relative public expenditures for the young and the old. An analysis of trends in social spending from 1980 to 2000 revealed a growing gap between children and the elderly, partly because most programs serving the elderly were federal and universal whereas most children's programs were state based and, with the exception of public

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65. We combine black and Hispanic versus other for these calculations, both to provide more conservative estimates of the potential minority demographic dividend and because we wish to compare the two educationally disadvantaged groups with others. Not only are Asians not educationally disadvantaged, on average, but their education attainment exceeds that of whites by a considerable margin. Because their numbers are small, however, our inference would not be altered if Asians were added to the minority population.
education, means tested. Social benefits for the elderly averaged $15,400 per capita in 1980, in comparison with $4,600 for children; by 2000 these average expenditures rose to $19,700 and $6,400, respectively, with medical costs driving the public program costs for the elderly.69 A recent estimate showed that per capita expenditures on health care for the elderly exceeded those for the population under age 65 by a factor approaching four; children, on the other hand, have the least spent on health care.70 The ballot box is the ultimate resource available to the elderly, but not the young, to protect their interests.

Diversification adds complexity to the social tension between the old and the young, but this need not be so. On grounds of social justice and fairness, one can argue that increasing educational investment will serve broad democratic and social goals by promoting individual social mobility and economic development.71 As shown throughout this volume, educational investment also makes good economic sense for individuals, for states, and for the nation. Yet as the recent affirmative action backlash attests, use of race-sensitive criteria to equalize higher educational opportunity meets with formidable resistance from opponents who claim that meritocratic principles are compromised in a mindless pursuit of proportionality.

Today, more than ever before, higher education is necessary to harness the demographic dividend afforded by the continued infusion of young people into an aging population. In a globalized world, population diversification represents a form of asset diversification, with dividends depending on investment portfolios. But continuing their current course, racial and ethnic differentials in educational attainment will undermine the social and economic integration prospects of recent immigrants and their children, and the nation will forgo the potential demographic dividend stemming from the baby boom echo and the above-replacement fertility rate of foreign-born women. Unless policy strategies are successful in weakening the link between group membership and pathways to social mobility, America will risk reifying class divisions along race and ethnic lines, short-circuiting the nation’s ability to maintain its international competitiveness.

There is no time for complacency if the United States is to retain its competitiveness in the face of rising challenges from a rapidly growing and developing China. The opportunity costs of not closing achievement and graduation gaps will continue to grow as global market integration continues. Rising to this monumental challenge requires a highly skilled labor force. The

69. Fox and others (2004).
70. Cox and Alm (2000).
71. Fox and others (2004).

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window of opportunity to harness the demographic dividend is closing, but unlike developing countries with high youth dependency rates, the United States has the economic resources to make the necessary investments. Whether it has sufficient political will is the real question.

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