112TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPT. 112–377
Part 1

PRO–GROWTH BUDGETING ACT OF 2012

R E P O R T

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H.R. 3582

together with

MINORITY AND DISSENTING VIEWS

JANUARY 30, 2012.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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PRO–GROWTH BUDGETING ACT OF 2012

JANUARY 30, 2012.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. RYAN of Wisconsin, from the Committee on the Budget, submitted the following

R E P O R T

together with

MINORITY AND DISSENTING VIEWS

[To accompany H.R. 3582]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Budget, to whom was referred the bill (H.R. 3582) to amend the Congressional Budget Act of 1974 to provide for macroeconomic analysis of the impact of legislation, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Pro-Growth Budgeting Act of 2012".

SEC. 2. MACROECONOMIC IMPACT ANALYSES.

(a) IN GENERAL.—Part A of title IV of the Congressional Budget Act of 1974 is amended by adding at the end the following new section:

"MACROECONOMIC IMPACT ANALYSIS OF MAJOR LEGISLATION

"SEC. 407. (a) CONGRESSIONAL BUDGET OFFICE.—The Congressional Budget Office shall, to the extent practicable, prepare for each major bill or resolution reported by any committee of the House of Representatives or the Senate (except the Committee on Appropriations of each House), as a supplement to estimates prepared under section 402, a macroeconomic impact analysis of the budgetary effects of such bill or resolution for the ten fiscal-year period beginning with the first fiscal year for which an estimate was prepared under section 402 and each of the next three ten fiscal-year periods. Such estimate shall be predicated upon the supplemental projection described in section 202(e)(4). The Director shall submit to such committee the macroeconomic impact analysis, together with the basis for the analysis.

As a supplement to estimates prepared under section 402, all such information so submitted shall be included in the report accompanying such bill or resolution.

"(b) ECONOMIC IMPACT.—The analysis prepared under subsection (a) shall describe the potential economic impact of the applicable major bill or resolution on major economic variables, including real gross domestic product, business investment, the capital stock, employment, and labor supply. The analysis shall also describe the potential fiscal effects of the bill or resolution, including any estimates of revenue increases or decreases resulting from changes in gross domestic product. To the extent practicable, the analysis should use a variety of economic models in order to reflect the full range of possible economic outcomes resulting from the bill or resolution. The analysis (or a technical appendix to the analysis) shall specify the economic and econometric models used, sources of data, relevant data transformations, and shall include such explanation as is necessary to make the models comprehensible to academic and public policy analysts.

"(c) DEFINITIONS.—As used in this section—

"(1) the term 'macroeconomic impact analysis' means—

"(A) an estimate of the changes in economic output, employment, capital stock, and tax revenues expected to result from enactment of the proposal;

"(B) an estimate of revenue feedback expected to result from enactment of the proposal; and

"(C) a statement identifying the critical assumptions and the source of data underlying that estimate;

"(2) the term 'major bill or resolution' means any bill or resolution if the gross budgetary effects of such bill or resolution for any fiscal year in the period for which an estimate is prepared under section 402 is estimated to be greater than .25 percent of the current projected gross domestic product of the United States for any such fiscal year;

"(3) the term 'budgetary effect', when applied to a major bill or resolution, means the changes in revenues, outlays, deficits, and debt resulting from that measure; and

"(4) the term 'revenue feedback' means changes in revenue resulting from changes in economic growth as the result of the enactment of any major bill or resolution.".

(b) CONFORMING AMENDMENT.—The table of contents set forth in section 1(b) of the Congressional Budget Act of 1974 is amended by inserting after the item relating to section 406 the following new item:

"Sec. 407. Macroeconomic impact analysis of major legislation.".

SEC. 3. ADDITIONAL CBO REPORT TO BUDGET COMMITTEES.

Section 202(e) of the Congressional Budget Act of 1974 is amended by adding at the end the following new paragraphs:

"(4)(A) After the President's budget submission under section 1105(a) of title 31, United States Code, in addition to the baseline projections, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate a supplemental projection assuming extension of current tax policy for the fiscal year commencing on October 1 of that year with a supplemental projection for the 10 fiscal-year period beginning with that fiscal year, assuming the extension of current tax policy.

"(B) For the purposes of this paragraph, the term 'current tax policy' means the tax policy in statute as of December 31 of the current year assuming—

"(i) the budgetary effects of measures extending the Economic Growth and Tax Relief Reconciliation Act of 2001;

"(ii) the budgetary effects of measures extending the Jobs and Growth Tax Relief Reconciliation Act of 2003;

"(iii) the continued application of the alternative minimum tax as in effect for taxable years beginning in 2011 pursuant to title II of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, assuming that for taxable years beginning after 2011 the exemption amount shall equal—

"(I) the exemption amount for taxable years beginning in 2011, as indexed for inflation; or

"(II) if a subsequent law modifies the exemption amount for later taxable years, the modified exemption amount, as indexed for inflation; and

"(iv) the budgetary effects of extending the estate, gift, and generation-skipping transfer tax provisions of title III of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

"(5) On or before July 1 of each year, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate, the

Long-Term Budget Outlook for the fiscal year commencing on October 1 of that year and at least the ensuing 40 fiscal years.".

INTRODUCTION

H.R. 3582, the "Pro-Growth Budgeting Act of 2012" was introduced by Representative Price of Georgia. Economists from across the ideological spectrum agree that legislation considered by Congress can have significant effects on economic growth. While the Congressional Budget and Impoundment Control Act of 1974 (Congressional Budget Act) requires that the Congressional Budget Office (CBO) provide Congress with information on the fiscal impact of all legislation reported from committee, there is no systematic requirement for analysis of the economic impact of legislation. This bill remedies that shortcoming.

The economic recovery from the recession in 2008 and 2009 has been unsatisfactory on nearly all fronts despite the unprecedented amount of debt-financed government spending aimed at boosting output and creating jobs. Real gross domestic product (GDP) grew by just 1.6 percent last year, roughly half the historical trend rate of U.S. growth and just a fraction of the growth pace observed in a typical recovery from recession. The unemployment rate, although it has ticked down recently, remains unacceptably high at 8.5 percent and of the 8.6 million jobs lost during the recession and aftermath, less than one-third have been recovered.

Economists now estimate that with such subpar economic growth the unemployment rate will probably not return to its pre-recession level until very late in the decade. It is clear that one of the key drags on the economy is the enormous amount of policy uncertainty generated by Washington, which makes businesses unable to predict their future costs, tax liability and profits, making them wary about investing, expanding and hiring. This uncertainty has been generated by a host of tax and legal mandates soon to take effect as a result of recently-passed health care legislation as well as the new regulatory burdens, some of which have yet to come into effect, contained in the Dodd-Frank Wall Street and Consumer Protection Act.

SUMMARY OF PROPOSED CHANGES

The bill requires CBO to produce a supplemental macroeconomic analysis for major legislation that would describe the likely impact of such legislation on key economic variables such as business investment, the capital stock, employment, labor supply, and real Gross Domestic Product (GDP). Importantly, this analysis would reflect both the short-term and long-term economic impact as the specified horizon for the analysis would be four decades (i.e. three decades beyond the typical 10-year budget window), allowing policymakers to judge whether or not considered policies would have a net positive or net negative economic impact over time. Likewise, the analysis would include estimates of revenue increases or decreases resulting from changes in real GDP, which, as a supplement to a traditional cost estimates, would help policymaker's better understand the full budget, as well as economic, impact of legislation.

The Act defines major legislation by the gross changes in fiscal aggregates the legislation would cause as a percentage of the economy. It defines a "major bill or resolution" as legislation causing a change in revenues, outlays, deficits, or debt in excess of 0.25 percent of GDP within the 10-year budget window. The Act relies on the analysis CBO is already required to conduct under section 402 of the Congressional Budget Act which uses the so-called current law baseline.

Once it is established that legislation is "major" for the purposes of the Act, CBO is required to conduct its macroeconomic impact analysis relative to a "current policy" baseline, which assumes that current tax policies are continued into the indefinite future, much like CBO's "alternative fiscal scenario" baseline.

CBO already has the necessary analytical tools and expertise to produce the macroeconomic reports envisioned by this legislation for Congress. CBO has occasionally provided such reports for certain legislation or policies (e.g. "An Analysis of the President's Budgetary Proposals for Fiscal Year 2012 (April 2011), Congressional Budget Office) though currently this analysis is done on an ad hoc basis, or by request only. One key aim of this legislation is to formalize the process of producing such analysis for each major bill or resolution before Congress, thereby providing Members with useful information on a consistent basis.

In its macroeconomic analysis, CBO has typically used a number of economic models which focus, respectively, on different timeframes (e.g. short term vs. long term) and contain different assumptions about how individuals, and the overall economy, respond to policy changes. While it is clear major legislation has a significant impact no one economic model gives a complete picture of how the economy would actually respond to a major government spending or tax policy change. Generally speaking, CBO uses a pair of traditional macroeconomic forecasting models developed by private-sector companies (Macroeconomic Advisers and IHS Global Insight) to gauge the short-term economic impact of policies. These models are driven by traditional Keynesian economic relationships that emphasize the influence of aggregate demand on output in the short term.

CBO also uses a pair of other models to gauge the medium and long-term economic impact of policies. These so-called growth models (a Solow-type growth model and a life-cycle growth model) concentrate on the supply-side factors in the economy. The elements driving economic output in these models are labor supply, the size and composition of the capital stock, and productivity (the interaction between labor and capital). With these diverse economic models, CBO produces a range of possible economic effects, reflecting the diversity of assumptions inside the models.

To the extent practicable, this legislation envisions that CBO will use a wide variety of economic models as well as the broad spectrum of empirical economic research and academic scholarship to inform the assumptions and parameters within these models (e.g., how people's work hours and employment decisions would respond to changes in marginal tax rates) in order to reflect the full range of possible economic outcomes resulting from a bill.

The legislation requires CBO to provide detailed explanations of the models used and the bases for its analysis in order to promote greater understanding by policymakers and the public of the strengths and weaknesses of the analysis provided. To further this transparency, the Committee requests that CBO provide to the House and Senate Budget Committees a report within one year of enactment outlining the economic models they will be using and the procedures they will follow in implementing this bill.

LEGISLATIVE HISTORY

On December 7, 2011, Members of the House Budget Committee introduced a comprehensive package of ten legislative budget process reform bills designed to fundamentally reform the budget process. Included in this package was H.R. 3582, the "Pro-Growth Budgeting Act of 2011," introduced by Representative Tom Price [R–GA–6].

HEARINGS

In 2011, the House Budget Committee held two budget process reform hearings to examine the budget process.

The first hearing, "The Broken Budget Process: Perspectives from Former CBO Directors," was held on September 21, 2011, with former CBO Directors Rudolph Penner and Alice Rivlin testifying.

The second hearing, "The Broken Budget Process: Perspectives From Budget Experts," was held on September 22, 2011, with Philip Joyce (University of Maryland), the Honorable Jim Nussle (Chairman of the Committee on the Budget, 2001 through 2007, United States House of Representatives) and the Honorable Phil Gramm (former United States Senator, 1985–2002) testifying.

PURPOSE AND NEED

A frequent criticism of CBO is its cost estimates do not capture the economic impact of legislation. Since the scoring of legislation is done on a "static" basis, it does not take into account the degree to which policies might impact the overall economy (i.e. GDP) in a positive or negative way.

According to the traditional scoring method used by CBO and the Joint Committee on Taxation (JCT), scorekeepers implicitly assume that the size of the economy (and therefore key economic variables such as labor supply and investment) remain fixed throughout the considered budget horizon. Many economists believe that fundamental tax reform, that is to say a broader tax base and lower tax rates, would lead to greater labor supply and increased investment, which, over time, would have a positive impact on total national output.

Likewise, sharp increases in marginal tax rates would generally be expected to lead to lower national output over time. These so-called "dynamic" macroeconomic effects are left out of the traditional cost estimates provided to policymakers. The estimates incorporate certain dynamic behavioral effects at the microeconomic, or individual, level but they do not incorporate dynamic macroeconomic effects that are associated with changes in economic performance.

Some have therefore advocated that CBO should switch from "static" to "dynamic" scoring in order to provide policymakers with a more accurate picture of the economic reality that might result from policies under their consideration. Several complications have been identified with such an approach. For instance, there would be technical difficulties in generating consistent and objective dynamic scores as these scores would rely heavily on a host of sometimes contentious assumptions about the presumed macroeconomic response to a given policy. Static scores typically produce a point estimate which then becomes the single, agreed-upon "cost" of legislation for policymakers. To accurately reflect the range of opinion about the assumptions in a dynamic score, scorekeepers would likely need to provide a range of cost estimates, which could complicate budget enforcement.

The consensus of the economic community is that traditional "static" scoring methods leave out essential information about real-world macroeconomic effects that should inform policymakers' thinking about legislation. However, the same community cautions that a switch to "dynamic" scoring of a sort that would be objective and consistent is not technically feasible at this time. The "Pro-Growth Budgeting Act of 2012" seeks to bridge this divide by providing policymakers with a greater amount of information about the likely economic impact of policies under their consideration while at the same time preserving traditional scoring methods and reporting conventions.

In H. Res. 5 of the 105th (January 7, 1997) Congress amended the Rules of the House of Representatives by adding a requirement that a macroeconomic analysis be done and included in a report effecting federal revenues. The analysis, though, was only done for major legislation so designated by the Majority Leader, after consultation with the Minority Leader, and then requested by the chair of the Committee on Ways and Means. Before the House recodified its rules in the 106th Congress, the provision was found in former clause 7(e) of rule XIII (H. Res. 5, January 6, 1999).

H. Res. 5 of the 108th Congress (January 7, 2003) amended the previous rule by requiring the macroeconomic analysis be done, if practicable, rather than only at the request of the chair of the Committee on the Ways and Means. A point of order lies against any bill if its report does not include such an analysis or a statement explaining why a macroeconomic impact analysis is not calculable.

This language may be found in section (2)(A) of clause 3 of Rule XIII of the House of Representatives for the 112th Congress.

SECTION BY SECTION

SECTION 1. SHORT TITLE.

This section establishes the short title of the bill as the "Pro-Growth Budgeting Act of 2012".

SECTION 2. MACROECONOMIC IMPACT ANALYSES.

Subsection (a) amends Title IV of the Congressional Budget Act (CBA) by adding at the end of Part A, a new section 407 that requires CBO to perform a macroeconomic impact analysis of "major legislation". The macroeconomic impact analysis is a supplement to the cost estimates CBO prepares pursuant to section 402 of the CBA. The analysis is required to address the 10-year budget window and each of the next three 10-year fiscal-year periods resulting in an analysis that covers a total of 40 years. The analysis is required to be conducted relative to a baseline that assumes the continuation of current tax policies.

Subsection 407(b), as added by this section, provides that the macroeconomic impact analysis will describe the potential economic impact of the applicable bill or resolution on major economic variables, including real gross domestic product (GDP), business investment, the capital stock, employment, and labor supply. The analysis is also to describe the potential fiscal effects of the bill or resolution, including any estimates of revenue increases or decreases resulting from changes in GDP. The analysis should, to the extent practicable, use a variety of economic models to reflect the full range of possible economic outcomes resulting from the bill. This analysis is required to be conducted relative to a baseline that assumes the continuation of current tax policies. Unlike the current law baseline, the current policy baseline established in section 3 of the Act assumes a more realistic future trajectory of fiscal policy as it does not assume the expiration of trillions of dollars of tax relief that is supported by neither the President, his party's leaders in Congress, nor House and Senate Republicans.

Subsection 407(c) of this section defines the terms used:

"Macroeconomic impact analysis" means estimates of the changes in economic output, employment, capital stock, and tax revenues expected to result from enactment of the proposal. In addition, it is a statement identifying critical assumptions and the source of data underling that estimate.

"Major bill or resolution" means any bill or resolution if the gross budgetary effects for a fiscal year which an estimate is prepared under section 402 are estimated to be greater than 0.25 percent of the current projected GDP for any such fiscal year. If CBO estimates under its traditional estimating methodology that the legislation will change direct spending outlays, revenues, deficits, or debt by an amount greater than 0.25 percent of GDP in that year, then it is a major bill or resolution under this definition. CBO's determination of whether a bill is major for the purposes of the Act relies on nearly 700 formal cost estimates cost estimates CBO routinely performs each year (not to mention the thousands of informal estimates CBO provides). These cost estimates are conducted relative to the current law baseline required by statute. Thus legislation extending current tax policy would be measured relative to the current law baseline and if the budgetary effects of such legislation exceeded the 0.25 percent of GDP threshold then that legislation would be a major bill or resolution under the Act.

"Budgetary effect" when applied to a major bill or resolution means the changes in revenues, outlays, deficit, and debt resulting from that measure.

"Revenue feedback" means changes in revenue resulting from changes in economic growth as the result of the enactment of any major bill or resolution.

Subsection (b) amends the table of contents for the CBA (section 1(b)) to reflect the addition of section 407.

SECTION 3. ADDITIONAL CBO REPORT TO BUDGET COMMITTEES.

This section amends section 202(e) of the CBA by requiring the Director of the CBO to submit, together with the analysis of the President's budget submission, a supplemental budget projection that assumes the extension of the Economic Growth and Tax Relief Reconciliation Act of 2001; the Jobs and Growth Tax Relief Reconciliation Act of 2003; extension of the "Alternative Minimum Tax fix"; and the extension of the estate, gift, and generation-skipping transfer tax provisions of title III of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

The section requires the Director of the CBO submit the agency's Long-Term Budget Outlook on or before July 1 of each year and that the outlook cover at least the ensuing 40 fiscal years.

VOTES OF THE COMMITTEE

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires each committee report to accompany any bill or resolution of a public character to include the total number of votes cast for and against each rollcall vote, on a motion to report and any amendments offered to the measure or matter, together with the names of those voting for and against.

Listed below are the actions taken in the Committee on the Budget of the House of Representatives on the Pro-Growth Budgeting Act of 2012.

On January 24, 2012, the committee met in open session, a quorum being present.

Chairman Ryan asked unanimous consent to be authorized, consistent with clause 4 of rule XVI of the Rules of the House of Representatives, to declare a recess at any time during the committee meeting.

There was no objection to the unanimous consent request.

Chairman Ryan asked unanimous consent to dispense with the first reading of the bill and the bill be considered as read and open to amendment at any point.

There was no objection to the unanimous consent request.

The committee adopted and ordered reported the Pro-Growth Budgeting Act of 2012.

The committee took the following votes:

Amendment in the Nature of a Substitute Offered by Mr. Price

1. The amendment was offered in the nature of a substitute to H.R. 3582 and made in order as original text. The bill requires CBO to prepare an analysis for all major legislation and of the effect that legislation would have on the U.S. economy. Major legislation is defined as any legislation estimated by the CBO to have a budgetary effect of at least 0.25 percent of annual GDP in any year within the ten-year budget window. The analysis must cover forty years and also include an estimate of the legislation's potential fiscal impact, including any changes in tax revenues resulting from changes in GDP. The macroeconomic impact analysis is supplemental information, in addition to the official congressional cost estimate of the legislation. The bill requires CBO to submit a statement identifying critical assumptions and sources of data underlying the estimate.

The amendment was agreed to by voice vote.

Amendment Offered by Mr. Amash

2. The amendment requires CBO to specify the economic and econometric models used when performing the supplemental analysis.

The amendment was agreed to by voice vote.

3. Mr. Garrett made a motion that the committee report the bill as amended and that the bill do pass.

The motion was agreed to by a rollcall vote of 21 ayes and 11 noes.

H.R. 3582

Name & State	Aye	No	Answer Present	Name & State	Aye	No	Answer Present
RYAN (WI) (Chairman)	X			VAN HOLLEN (MD) (Ranking)		X	
GARRETT (NJ)	X			SCHWARTZ (PA)			
SIMPSON (ID)	X			KAPTUR (OH)			
CAMPBELL (CA)	X			DOGGETT (TX)		X	
CALVERT (CA)	X			BLUMENAUER (OR)		X	
AKIN (MO)	X			McCOLLUM (MN)		X	
COLE (OK)				YARMUTH (KY)		X	
PRICE (GA)	X			PASCRELL (NJ)		X	
McCLINTOCK (CA)	X			HONDA (CA)			
CHAFFETZ (UT)	X			RYAN (OH)		X	
STUTZMAN (IN)	X			WASSERMAN SCHULTZ (FL)		X	
LANKFORD (OK)	X			MOORE (WI)		X	
BLACK (TN)	X			CASTOR (FL)			
RIBBLE (WI)	X			SHULER (NC)			
FLORES (TX)	X			TONKO (NY)		X	
MULVANEY (SC)	X			BASS (CA)		X	
HUELSKAMP (KS)	X						
YOUNG (IN)	X						
AMASH (MI)	X						
ROKITA (IN)	X						
GUINTA (NH)	X						
WOODALL (GA)	X						

Mr. Honda, made a unanimous consent request to let the record reflect he would have voted no on the rollcall vote.

There was no objection to the unanimous consent request.

Mr. Garrett made a motion that, pursuant to clause 1 of rule XXII of the Rules of the House of Representatives, the Chairman be authorized to offer such motions as may be necessary in the House to go to conference with the Senate, and staff be authorized to make any necessary technical and conforming changes to the bill.

The motion was agreed to without objection.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee on the Budget's oversight findings and recommendations are reflected in the body of this report.

BUDGET ACT COMPLIANCE

The provisions of clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a)(1) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority, new spending authority, new credit authority, or increased or decreased revenues or tax expenditures) are not considered applicable. The estimate and comparison required to be prepared by the Director of the Congressional Budget Office under clause 3(c)(3) of rule XIII of the Rules of the House of Representatives and sections 402 and 423 of the Congressional Budget Act of 1974 submitted to the committee prior to the filing of this report are as follows:

CONGRESSIONAL BUDGET OFFICE,
U.S. CONGRESS,
Washington, DC, January 27, 2012.

Hon. PAUL RYAN, *Chairman,*
Committee on the Budget, U.S. House of Representatives, Washington, DC 20515.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3582, the Pro-Growth Budgeting Act of 2012.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Jared Brewster, who can be reached at 226–2880.

Sincerely,

DOUGLAS W. ELMENDORF,
Director.

ENCLOSURE:
cc: Hon. CHRIS VAN HOLLEN, *Ranking Member.*

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE
JANUARY 27, 2012

H.R. 3582: PRO-GROWTH BUDGETING ACT OF 2012

As ordered reported by the House Committee on the Budget on January 24, 2012

SUMMARY

H.R. 3582 would require the Congressional Budget Office to provide a macroeconomic impact analysis for bills that are estimated to have a large budgetary effect. The bill would also require CBO to provide supplemental budget projections that assume certain tax policies are extended.

Under H.R. 3582, CBO would be required to provide—to the extent practicable—an analysis of the impact on the economy of any bill that would have an estimated budgetary effect of greater than 0.25 percent of gross domestic product (GDP) in any fiscal year. (Currently, that threshold would be about $40 billion, based on GDP of about $16 trillion.) The macroeconomic analysis would include the estimated effect on revenues and outlays of a change in GDP resulting from the legislation being evaluated. Those estimates would have to assume that certain tax policies not currently in CBO's baseline are extended. Furthermore, CBO would be required to publicly provide the assumptions and models underlying those analyses.

CBO estimates that implementing H.R. 3582 would cost about $2 million over the 2012–2017 period, assuming appropriation of the necessary amounts. Enacting H.R. 3582 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

H.R. 3582 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3582 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

[By fiscal year, in millions of dollars]

	2012	2013	2014	2015	2016	2017	2012–2017
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	*	*	*	*	*	*	2
Estimated Outlays	*	*	*	*	*	*	2

Note: * = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted in fiscal year 2012, that the necessary funds will be provided for each year, and that spending will follow historical patterns for similar activities.

CBO estimates that in order to prepare for the macroeconomic impact studies, as called for in H.R. 3582, the agency would probably need two or three additional staff members. (The amount of extra personnel resources needed is uncertain, as it would depend on how many pieces of legislation with budgetary effects greater than 0.25 percent of GDP in a fiscal year are considered by the Congress in each year.) In addition to taking the lead on new macroeconomic impact studies, the additional CBO staff members would be responsible for preparing the descriptions of underlying assumptions and models for the public (as required by the bill). Based on current average costs (including salaries and associated benefits), adding two or three staff members could have a small cost in fiscal year 2012 and would cost between $300,000 and $500,000 per year beginning in fiscal year 2013, resulting in a six-year cost of roughly $2 million.

PAY–AS–YOU–GO CONSIDERATIONS

None.

INTERGOVERNMENTAL AND PRIVATE–SECTOR IMPACT

H.R. 3582 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY

Federal Costs: Jared Brewster.
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle.
Impact on the Private Sector: Paige Piper/Bach.

ESTIMATE APPROVED BY:

Theresa Gullo, Deputy Assistant Director for Budget Analysis.

Performance Goals and Objectives

With respect to the requirement of clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the performance goals and objectives of this legislation are to provide for systematic requirements for analysis of the economic impact of major legislation.

Constitutional Authority Statement

Pursuant to clause 7 of rule XII of the Rules of the House of Representatives, the committee finds the constitutional authority for this legislation in Article I, section 9, clause 7.

Committee Cost Estimate

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the committee report incorporates the cost estimate prepared by the Director of the Congressional Budget Office pursuant to sections 402 and 423 of the Congressional Budget Act of 1974.

ADVISORY COMMITTEE STATEMENT

No advisory committee within the meaning of section 5(b) of the Federal Advisory Committee Act was created by this legislation.

APPLICABILITY TO THE LEGISLATIVE BRANCH

The committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act (Public Law 104–1).

FEDERAL MANDATES STATEMENT

The committee adopted the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act (Public Law 104–4).

ADVISORY ON EARMARKS

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 3582 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f), or 9(g) of rule XXI of the Rules of the House of Representatives.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italic and existing law in which no change is proposed is shown in roman):

CONGRESSIONAL BUDGET ACT OF 1974

SHORT TITLES; TABLE OF CONTENTS

SECTION 1. (a) * * *

(b) TABLE OF CONTENTS.—

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TITLE II—CONGRESSIONAL BUDGET OFFICE

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DUTIES AND FUNCTIONS

SEC. 202. (a) * * *

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(e) REPORTS TO BUDGET COMMITTEES.—

(1) * * *

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(4)(A) After the President's budget submission under section 1105(a) of title 31, United States Code, in addition to the baseline projections, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate a supplemental projection assuming extension of current tax policy for the fiscal year commencing on October 1 of that year with a supplemental projection for the 10 fiscal-year period beginning with that fiscal year, assuming the extension of current tax policy.

(B) For the purposes of this paragraph, the term "current tax policy" means the tax policy in statute as of December 31 of the current year assuming—

(i) the budgetary effects of measures extending the Economic Growth and Tax Relief Reconciliation Act of 2001;

(ii) the budgetary effects of measures extending the Jobs and Growth Tax Relief Reconciliation Act of 2003;

(iii) the continued application of the alternative minimum tax as in effect for taxable years beginning in 2011 pursuant to title II of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, assuming that for taxable years beginning after 2011 the exemption amount shall equal—

(I) the exemption amount for taxable years beginning in 2011, as indexed for inflation; or

(II) if a subsequent law modifies the exemption amount for later taxable years, the modified exemption amount, as indexed for inflation; and

(iv) the budgetary effects of extending the estate, gift, and generation-skipping transfer tax provisions of title III of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

(5) On or before July 1 of each year, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate, the Long-Term Budget Outlook for the fiscal year commencing on October 1 of that year and at least the ensuing 40 fiscal years.

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TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

PART A—GENERAL PROVISIONS

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MACROECONOMIC IMPACT ANALYSIS OF MAJOR LEGISLATION

SEC. 407. (a) CONGRESSIONAL BUDGET OFFICE.—The Congressional Budget Office shall, to the extent practicable, prepare for each major bill or resolution reported by any committee of the House of Representatives or the Senate (except the Committee on Appropriations of each House), as a supplement to estimates prepared under section 402, a macroeconomic impact analysis of the budgetary ef-

fects of such bill or resolution for the ten fiscal-year period beginning with the first fiscal year for which an estimate was prepared under section 402 and each of the next three ten fiscal-year periods. Such estimate shall be predicated upon the supplemental projection described in section 202(e)(4). The Director shall submit to such committee the macroeconomic impact analysis, together with the basis for the analysis. As a supplement to estimates prepared under section 402, all such information so submitted shall be included in the report accompanying such bill or resolution.

(b) ECONOMIC IMPACT.—The analysis prepared under subsection (a) shall describe the potential economic impact of the applicable major bill or resolution on major economic variables, including real gross domestic product, business investment, the capital stock, employment, and labor supply. The analysis shall also describe the potential fiscal effects of the bill or resolution, including any estimates of revenue increases or decreases resulting from changes in gross domestic product. To the extent practicable, the analysis should use a variety of economic models in order to reflect the full range of possible economic outcomes resulting from the bill or resolution. The analysis (or a technical appendix to the analysis) shall specify the economic and econometric models used, sources of data, relevant data transformations, and shall include such explanation as is necessary to make the models comprehensible to academic and public policy analysts.

(c) DEFINITIONS.—As used in this section—

(1) the term "macroeconomic impact analysis" means—

(A) an estimate of the changes in economic output, employment, capital stock, and tax revenues expected to result from enactment of the proposal;

(B) an estimate of revenue feedback expected to result from enactment of the proposal; and

(C) a statement identifying the critical assumptions and the source of data underlying that estimate;

(2) the term "major bill or resolution" means any bill or resolution if the gross budgetary effects of such bill or resolution for any fiscal year in the period for which an estimate is prepared under section 402 is estimated to be greater than .25 percent of the current projected gross domestic product of the United States for any such fiscal year;

(3) the term "budgetary effect", when applied to a major bill or resolution, means the changes in revenues, outlays, deficits, and debt resulting from that measure; and

(4) the term "revenue feedback" means changes in revenue resulting from changes in economic growth as the result of the enactment of any major bill or resolution.

* * * * * * *

JURISDICTION

The following letters were exchanged between the House Committee on Rules and the House Committee on the Budget regarding committee jurisdiction:

January 24, 2012.

Hon. PAUL RYAN, *Chairman,*
Committee on the Budget, 207 Cannon House Office Building, Washington, DC 20515.

DEAR CHAIRMAN RYAN: On January 25, 2012, the Committee on the Budget ordered reported H.R. 3582, the Pro-Growth Budgeting Act of 2011. As you know, the Committee on Rules was granted an additional referral upon the bill's introduction pursuant to the Committee's jurisdiction under rule X of the Rules of the House of Representatives over the rules of the House and special orders of business.

Because of your willingness to consult with my committee regarding this matter, I will waive consideration of the bill by the Rules Committee. By agreeing to waive its consideration of the bill, the Rules Committee does not waive its jurisdiction over H.R. 3582. In addition, the Committee on Rules reserves its authority to seek conferees on any provisions of the bill that are within its jurisdiction during any House-Senate conference that may be convened on this legislation. I ask your commitment to support any request by the Committee on Rules for conferees on H.R. 3582 or related legislation.

I request that you include this letter and your response as part of your committee's report on the bill and the Congressional Record during consideration of the legislation on the House floor.

Thank you for your attention to these matters.

Sincerely,

DAVID DREIER.

January 25, 2012.

Hon. DAVID DREIER, *Chairman,*
Committee on Rules, H–312, the Capitol, Washington, DC 20515.

DEAR CHAIRMAN DREIER: Thank you for your letter regarding H.R. 3582, the Pro-Growth Budgeting Act of 2012, which the Committee on the Budget ordered reported on January 24, 2012.

I acknowledge that certain provisions in this legislation are in your committee's jurisdiction. I appreciate your decision to facilitate prompt consideration of the bill by the full House. I understand that by foregoing a sequential referral, the Committee on Rules is not waiving its jurisdiction.

Per your request, I will include a copy of our exchange of letters with respect to H.R. 3582 in the Congressional Record during House consideration of this bill. We appreciate your cooperation and look forward to working with you as this bill moves through the Congress.

Sincerely,

PAUL RYAN,
Chairman.

VIEWS OF COMMITTEE MEMBERS

Clause 2(l) of rule XI of the Rules of the House of Representatives requires each committee to provide two days to Members of the committee to file Minority, additional, supplemental, or dissenting views and to include such views in the report on legislation considered by the committee. The following views were submitted:

MINORITY VIEWS

Although there are large differences in budget priorities between the parties, we share a common goal of putting the federal budget on a fiscally sustainable path. We all want the federal government to be efficient, to focus scarce resources where they can do the most good, and to not waste a single dime of taxpayer dollars. And we want our budget laws to help support those goals.

Budget process rules and laws can make a difference. For instance, the PAYGO principle that has been in effect at different periods has played a useful role in preventing the deficit from getting even worse. But budget process changes will never be a substitute for tackling the difficult fiscal questions facing us today. It is not that the budget process does not work, it is that Congress has failed to follow the rules already on the books.

The Budget Committee has held two hearings on the general topic of budget process reform and the recommendations crossed party lines. Former Budget Committee Chairman Jim Nussle, a Republican witness, testified that "It may not be that the budget process is broken. It may not be, in other words, that tools are broken, but it may be the fact that the tools are not even being used." Similarly, Dr. Philip Joyce, former Congressional Budget Office (CBO) staff member and a Democratic witness, testified that "My main message is that most of the tools that you need to solve the budget problems faced by the country are already in your toolbox. If the goal is to deal with the larger fiscal imbalance that faces us, the most important thing to do is to make use of them, not search for more tools."

The reason we are not following the existing budget rules is that Republicans have shown a lack of political will and an unwillingness to compromise. Until Republicans are willing to support a balanced approach, we will never address the urgent need to put Americans back to work and to put our nation on a path toward long-term fiscal sustainability. Unfortunately, the Pro-Growth Budgeting Act of 2012 does nothing to create a single job, to reduce the deficit by a single penny, or to put the country on a fiscally sustainable path.

It is clear from the bill's language and approach that it is designed to make it easier to enact deficit-increasing tax cuts. The bill requires CBO to produce supplementary estimates of the economic impact of major bills using dynamic scoring, an approach that involves more uncertainty and subjectivity than current scoring rules. Former Republican Budget Committee Chairman Jim Nussle opposed moving to dynamic scoring, noting that CBO "generally have done a better job than some of the dynamic score-keeping. That has been part of the challenge of moving to something called dynamic scoring is that we have not found anything that was any more accurate than the current way."

The bill focuses on analyzing qualifying legislation's impact on economic growth and employment, while neglecting to mention the economic impacts resulting from increased government borrowing to finance revenue changes. Existing analysis by CBO suggests that the Bush tax cuts would actually reduce growth in the long-run because the negative impacts from increased borrowing outweigh any benefits from lower tax rates. But it is not even clear if under this bill an analysis of extending the Bush tax cuts would show any economic impact because the bill seems, despite the stated intention of the sponsor, to suggest analyzing impacts against a baseline that already assumes the tax cuts are extended. In addition, the bill explicitly exempts measures reported from the Appropriations Committee, meaning there will be no attempt to analyze additional economic benefits from investments in education, infrastructure, or any other discretionary spending.

It is imperative that we get Americans back to work and get our fiscal house in order. The bill does nothing to achieve either goal. Instead, it pretends that budget process reform in the form of mandating supplemental dynamic scoring is the answer to solve our very real problems.

CHRIS VAN HOLLEN.
MICHAEL M. HONDA.
EARL BLUMENAUER.
PAUL TONKO.
BILL PASCRELL, Jr.
GWEN MOORE.
BETTY MCCOLLUM.
ALLYSON Y. SCHWARTZ.
DEBBIE WASSERMAN SCHULTZ.
KAREN BASS.

DISSENTING VIEW

During the Budget Committee hearing, I referenced the work of Art Rolnick, former Senior Vice President and Director of Research at the Federal Reserve Bank of Minneapolis. In March 2003, he published a paper with his colleague Rob Grunewald titled "Early Childhood Development: Economic Development with a High Public Return." Their paper applies an economic analysis to argue that Minnesota would be best served by increasing public investments in quality early childhood development programs.

Reviewing a study of a Michigan preschool, research found the benefit-to-cost ratio was as great as 8-to-1. For every public dollar spent in 1960, the participants and community received more than $8 dollars in benefits. These benefits were seen across the board: children had higher graduation rates, businesses had a more educated workforce, and courts saw a reduction in juvenile delinquency. Investing in early childhood development was a win for the child, their families, and the community.

The advantages cited by Mr. Rolnick and Mr. Grunewald of early education make it clear that these programs not only pay for themselves, but are a strong investment in our society's well-being and future. I encourage all my colleagues to review their paper.

As policymakers, we must understand the broader economic impact of the bills we consider on the House floor. Unfortunately, the *Pro-Growth Budgeting Act* (H.R. 3582) would not provide us with that information. H.R. 3582 specifically excludes appropriations bills—which provide key investments in our neighborhoods, schools, and economy—while highlighting the potential and frequently erroneous impact of reducing federal revenues. Ignoring the tangible and quantifiable benefits of direct federal investments in our fellow citizens and communities may be a scoring strategy and ideological ploy of the Majority, but it will ultimately result in very bad public policy.

BETTY MCCOLLUM.

Early Childhood Development: Economic Development with a High Public Return

Art Rolnick
Senior Vice President and Director of Research

Rob Grunewald
Regional Economic Analyst

Federal Reserve Bank of Minneapolis

Note: The following paper was developed in March 2003 with Minnesota audiences in mind. However, the authors subsequently discovered a high degree of interest throughout the country in their research on the economics of early childhood development and the universality of the issues discussed. This paper also motivated the October conference at the Minneapolis Fed.

Early childhood development programs are rarely portrayed as economic development initiatives, and we think that is a mistake. Such programs, if they appear at all, are at the bottom of the economic development lists for state and local governments. They should be at the top. Most of the numerous projects and initiatives that state and local governments fund in the name of creating new private businesses and new jobs result in few public benefits. In contrast, studies find that well-focused investments in early childhood development yield high public as well as private returns.

Why the case for publicly subsidizing private businesses is flawed and misguided

Over the last few years, the future of Minnesota's economy has been called into question. The resulting debate illustrates how little is understood about the fundamentals that underlie economic development. While many recognize the success of the Minnesota economy in the past, they see a weakening in the foundations of that success. Some point to the decline in corporate headquarters located in Minnesota. Some point to the lack of funding for new startup companies, particularly in the areas of high-tech and biotech. Some point to the possible loss of professional sports teams. Some think the University of Minnesota is not visible enough in the business community. And still others raise the broader concern that Minnesota's citizens and policymakers have become too complacent and unwilling to make the public commitment to be competitive in a global economy.

Those who raise these concerns conclude that Minnesota and local governments need to take a more active role in promoting our economy. Often that implies that the state or local governments subsidize private activities that the market is not funding. Proponents of this view argue that without such subsidies, either well-deserving businesses will not get funded or other states will lure our businesses to greener pastures.

State and local subsidies to private businesses are not new. In the name of economic development and creating new jobs, Minnesota, and virtually every other state in the union, has a long history of subsidizing private businesses. We have argued in previous studies that the case for these subsidies is short-sighted and fundamentally flawed.[1] From a national perspective, jobs are not created—they are only relocated. From a state and local perspective, the economic gains are suspect because many would have been realized without the subsidies. In summary, what often passes for economic development and sound public investment is neither.

If subsidizing private businesses is the wrong way to promote Minnesota's economy, then what is the right way?

To answer this question, we need to understand that unfettered markets generally allocate scarce resources to their most productive use. Consequently, governments should only intervene in markets when they fail.

Market failures can occur for a variety of reasons; two well-documented failures are goods that have external effects and those with public attributes. Unfettered markets will generally produce the wrong amount of such goods. Education has long been recognized as a good that has external effects and public attributes. Without public support, the market will yield too few educated workers and too little basic research. This problem has long been understood in the United States and it is why our government, at all levels, has supported public funding for education. (According to the Organization for Economic Cooperation and Development, for example, the United States in 1999 ranked high on public funding of higher education.[2]) Nevertheless, recent studies suggest that one critical form of education, early childhood development, or ECD, is grossly underfunded. However, if properly funded and managed, investment in ECD yields an extraordinary return, far exceeding the return on most investments, private or public.

A convincing economic case for publicly subsidizing education has been around for years and is well supported. The economic case for investing in ECD is more recent and deserves more attention.

Public funding of education has deep roots in U.S. history. John Adams, the author of the oldest functioning written constitution in the world, the constitution of the Commonwealth of Massachusetts, 1779, declared in that document that a fundamental duty of government is to provide for education.[3] Publicly funded schools have been educating children in the United States ever since. Today over 85 percent of U.S children are educated in publicly funded schools. John Adams argued for public funding of education because he realized the importance of educated voters to the well-being of a democracy. We suspect that he also understood the economic benefits that flow to the general public.

Investment in human capital breeds economic success not only for those being educated, but also for the overall economy. Clearly today, the market return to education is sending a strong signal. Prior to 1983, the wages of a worker with an undergraduate degree exceeded a worker with a high school degree by roughly 40 percent. Currently, that difference is close to 60 percent. The wage premium for an advanced degree has grown even more. Prior to 1985, the wages of a worker with a graduate degree exceeded those of a worker with a high school degree by roughly 60 percent. Today, that difference is over 100 percent.

Minnesota represents a good example of the economic benefits that flow from education. Evidence is clear that our state has one of the most successful economies in the country because it has one of the most educated workforces. In 2000, almost a third of persons 25 and older in Minnesota held at least a bachelor's degree, the sixth highest state in the nation. To ensure the future success of Minnesota's economy, we must continue to provide a highly educated workforce.

The economic case for public funding of early childhood development

Knowing that we need a highly educated workforce, however, does not tell us where to invest limited public resources. Policymakers must identify the educational investments that yield the highest public returns. Here the literature is clear: Dollars invested in ECD yield extraordinary public returns.

The quality of life for a child and the contributions the child makes to society as an adult can be traced back to the first few years of life. From birth until about 5 years old a child undergoes tremendous growth and change. If this period of life includes support for growth in cognition, language, motor skills, adaptive skills and social-emotional functioning, the child is more likely to succeed in school and later contribute to society.[4] However, without support during these early years, a child is more likely to drop out of school, receive welfare benefits and commit crime.

A well-managed and well-funded early childhood development program, or ECDP, provides such support. Current ECDPs include home visits as well as center-based programs to supplement and enhance the ability of parents to provide a solid foundation for their children. Some have been initiated on a large scale, such as federally funded Head Start, while other small-scale model programs have been implemented locally, sometimes with relatively high levels of funding per participant.

The question we address is whether the current funding of ECDPs is high enough. We make the case that it is not, and that the benefits achieved from ECDPs far exceed their costs. Indeed, we find that the return to ECDPs far exceeds the return on most projects that are currently funded as economic development.

Many of the initial studies of ECDPs found little improvement; in particular, they found only short-term improvements in cognitive test scores. Often children in early childhood programs would post improvements in IQ relative to nonparticipants, only to see the IQs of nonparticipants catch up within a few years.[5]

However, later studies found more long-term effects of ECDPs. One often-cited research project is the High/Scope study of the Perry Preschool in Ypsilanti, Mich., which demonstrates that the returns available to an investment in a high-quality ECDP are significant. During the 1960s the Perry School program provided a daily 2 1/2-hour classroom session for 3- to 4-year-old children on weekday mornings and a 1 1/2-hour home visit to each mother and child on weekday afternoons. Teachers were certified to teach in elementary, early childhood and special education, and were paid 10 percent above the local public school district's standard pay scale. During the annual 30-week program, about one teacher was on staff for every six children.[6]

Beginning in 1962, researchers tracked the performance of children from low-income black families who completed the Perry School program and compared the results to a control group of children who did not participate. The research project provided reliable longitudinal data on participants and members of the control group. At age 27, 117 of the original 123 subjects were located and interviewed.[7]

The results of the research were significant despite the fact that, as in several other studies, program participants lost their advantage in IQ scores over nonparticipants within a few years after completing the program. Therefore a significant contribution to the program's success likely derived from growth in noncognitive areas involving social-emotional functioning. During elementary and secondary school, Perry School participants were less likely to be placed in a special education program and had a significantly higher average achievement score at age 14 than nonparticipants. Over 65 percent of program participants graduated from regular high school compared with 45 percent of nonparticipants. At age 27, four times as many program participants as nonparticipants earned $2,000 or more per month. And only one-fifth as many program participants as nonparticipants were arrested five or more times by age 27.[8]

Perry School Preschool's Estimated Impact per Program Participant

Benefit/Cost Analysis

	Present Value in 1992 Dollars Discounted at 3%		
Benefits*	**For Participant**	**For Public**	**Total**
Child care provided	738	0	738
More efficent K-12 education, such as less grade retention and higher achievement	0	6,872	6,872
Decrease in public adult education costs	0	283	283
Increase in participants' earnings and employee benefits	21,485	8,846	30,331
Decrease in crime	0	70,381	70,381
Increase in publicly funded higher education costs	0	-868	-868
Decrease in welfare payments	-2,653	2,918	265
Total Benefits	19,570	88,433	108,002
Cost of Program	0	-12,356	-12,356

Estimated return on $1 invested in program:

For Participant and Public: $8.74 ($108,002 in Benefits/$12,356 for Cost of Program)

For Public: $7.16 ($88,433 in Benefits/$12,356 for Cost of Program)

* Benefits and costs were measured from ages 3 through 27 and projected for ages 28 through 65.

Data source: *The High/Scope Perry Preschool Study Through Age 27*

Other studies of ECDPs, while not solely focused on 3- to 4-year-old children, also show improvements in scholastic achievement and less crime. For example, the Syracuse Preschool Program provided support for disadvantaged children from prenatal care through age 5. Ten years later, problems with probation and criminal offenses were 70 percent less among participants compared with a control group.[9]

As the result of the Abecedarian Project in North Carolina, which provided children from low-income families a full-time, high-quality educational experience from infancy through age 5, academic achievement in both reading and math was higher for program participants relative to nonpar-

Perry School Preschool's Estimated Impact per Program Participant

Table 1B Real Internal Rate of Return*

Benefits**		**Average Annual Effect in 1992 Dollars**		
		For Participant	**For Public**	**Total**
Child care provided	(Ages 3-4)	385	0	385
More efficent K-12 education	(Ages 5-17)	0	747	747
Decrease in public adult education services	(Ages 20-25)	0	89	89
Increase in participants' earnings and employee benefits	(Ages 18-27)	2,142	714	2,856
	(Ages 28-65)	1,070	357	1,427
Decrease in crime	(Ages 18-27)	0	8,923	8,923
	(Ages 28-65)	0	1,565	1,565
Increase in publicly funded higher education costs	(Ages 20-25)	0	-225	-225
Decrease in welfare payments	(Ages 18-27)	-392	431	39
	(Ages 28-65)	-31	34	3
Cost of program	(Ages 3-4)	0	-6,444	-6,444
Estimated Real Internal Rate of Return		4%	12%	16%

* The internal rate of return is the interest rate received for an investment that consists of payments and revenue occurring at regular periods. The above amounts were allocated annually across the age groups listed.

** Benefits and costs were measured from ages 3 through 27 and projected for ages 28 through 65.

Data source: *The High/Scope Perry Preschool Study Through Age 27*

ticipants into young adulthood. Furthermore, participants had fewer incidences of grade retention and special education placements by age 15.[10]

The High/Scope study conducted a benefit-cost analysis by converting the benefits and costs found in the study into monetary values in constant 1992 dollars discounted annually at 3 percent. The researchers found that for every dollar invested in the program during the early 1960s, over $8 in benefits was returned to the program participants and society as a whole (see Table 1A).

While 8-to-1 is an impressive benefit-to-cost ratio, policymakers should place this result in context with returns from other economic development projects. Perhaps another project can boast a higher benefit-to-cost ratio. Unfortunately, well-grounded benefit-to-cost ratios are seldom computed for public projects. However, an alternative measure—the internal rate of return—can be used to more easily compare the public, as well as private, return to investments. (The internal rate of return is the interest rate received for an investment consisting of payments and revenue that occur at regular periods.)

To calculate the internal rate of return for the Perry School program, we estimated the time periods in which costs and benefits in constant dollars were paid or received by program participants and society (see Table 1B). We estimate the real internal rate of return for the Perry School program at 16 percent. "Real" indicates that the rate of return is adjusted for inflation.

While program participants directly benefited from their increase in after-tax earnings and fringe benefits, these benefits were smaller than those gained by the general public. Based on present value estimates, about 80 percent of the benefits went to the general public (students were less disruptive in class and went on to commit fewer crimes), yielding over a 12 percent internal rate of return for society in general. Compared with other public investments, and even those in the private sector, an ECDP seems like a good buy. This analysis suggests that early childhood development is underfunded; otherwise, the internal rate of return on an ECDP would be comparable to other public investments.

As with virtually all studies, there are caveats to the High/Scope findings. On the one hand, the High/Scope study may overstate the results we could achieve today. Problems facing children 30 years ago were different from the problems facing children today. Single parenthood, parental drug use, neighborhood crime are higher in many areas of the country than they were 30 years ago. Therefore, the rate of return of an ECDP today may be lower than the Perry School program.

Furthermore, in reviewing our method of calculating the internal rate of return, one could argue that some of the payments and revenue streams assigned should have started or ended in different years, or that assigning an even distribution distorts the actual payments and revenue made. Nevertheless, we find that the final result holds, even when payments and revenue are adjusted to a more conservative distribution.

On the other hand, the High/Scope study may understate the results we could achieve today. First, the High/Scope study doesn't measure positive effects on children born to participant families after the study period. The knowledge gained by parents participating in the program likely transferred to their younger children. Second, the study may further understate the effects because it doesn't take into account effects on future generations. With increased education and earnings, participants' children would be less likely to commit crime and more likely to achieve higher levels of education and income than if their parents hadn't attended the Perry School program. A chain of poverty may have been broken.

The returns to ECDPs are especially high when placed next to other spending by governments made in the name of economic development. Yet ECD is rarely considered as an economic development measure.

For example, tax increment financing and other subsidies have recently been used to locate a discount retail store and an entertainment center in downtown Minneapolis, and to relocate a major corporate headquarters to suburban Richfield and a computer software firm to downtown St. Paul. Can any of these projects, which combined represent an estimated quarter of a billion dollars in public subsidies, stand up to a 12 percent public return on investment? From the state's point of view, if the subsidy is simply moving businesses within the state, the public return is zero. If the subsidy is required for the business to survive, the risk-adjusted public return is not merely small but could be negative.

As our lawmakers review proposals to build or improve the state's major professional sports stadiums, let's not make the same mistake. The various proposals to build new baseball and football stadiums and improve the current basketball stadium total over $1 billion. Can new stadiums offer a comparable public return on investment as an ECDP? How does a new stadium reduce crime, increase earnings and potentially break a chain of poverty? We propose that this $1 billion plus be invested in a project with a much higher public return.

Proposal: Minnesota Foundation for Early Childhood Development

Our proposal—to create a foundation for early childhood development in Minnesota—isn't born in a vacuum. For several years the state of Minnesota has sponsored initiatives to help prepare children for kindergarten, specifically, Early Childhood Family Education, or ECFE, School Readiness and state-funded Head Start programs. These programs often work together in supporting early childhood development.

ECFE provides support to parents and their children from birth until kindergarten enrollment to promote the healthy growth and development of children. The program offers classes for parents and

Table 2 Cost Estimate to Educate all 3- and 4-Year-Old Children from Low-Income Families in Minnesota at a Two-Year, High-Quality ECDP

Annual cost of program		
Number of 3- and 4-year-old children living in poverty*		20,000
Cost per child**	$	9,500
Total	$	190,000,000
Current funds available		
Federal and state annual funds for Head Start (Serves about 13,300 children at an annual cost of $5,750 per child)	$	80,000,000
School Readiness (Estimate that 30 percent of children participating in the program live in poverty)	$	3,000,000
Early Childhood Family Education (Estimate of amount currently spent on 3- and 4-year-old children who live in poverty)	$	2,000,000
Total	$	85,000,000
Total annual need (Cost—Current funds available)	$	105,000,000
$1.5 billion endowment invested in AAA corporate bonds yielding an average 7 percent annual return	$	105,000,000

* Based on statistics from the Minnesota Department of Children, Families & Learning

** Estimate based on Perry School program children, and provides optional home visits. About $20 million in state aid was allocated to ECFE in 2001, which supported programs for more than 300,000 parents and children.[11]

Between the ages of 3 1/2 to 5 years, children can participate in School Readiness programs that provide a wide array of prekindergarten activities in collaboration with other early childhood and community programs. Funding for School Readiness was about $10 million in 2001 and reached 43,030 children.[12]

The state of Minnesota also allocated almost $19 million to supplement federal funding ($59 million) for Head Start programs in 2000, with about 13,300 children and their families participating in comprehensive education, health and social services. However, according to a state report, only 45 percent of eligible children and their families received Head Start services. Some of these eligible children between the ages of 3 1/2 to 5 years who didn't receive help from Head Start participated in School Readiness programs.[13] However, it is unlikely that participation of high-needs children in a lower-cost, less comprehensive program demonstrated the returns available in a part- to full-day, long-term program.

We propose that the Minnesota state government create the Minnesota Foundation for Early Childhood Development to fill the gap between the funds currently available for ECFE, School Readiness and Head Start and the amount necessary to fully fund a high-quality program for all 3- and 4-year-old children living in poverty in Minnesota. A one-time $1.5 billion outlay would create an endowment that could support ECDPs on an annual basis. The foundation would receive donations from government, private foundations, individuals and businesses. With the foundation's funds invested in corporate AAA bonds, earning about 7 percent per year, we estimate that the $105 million in annual earnings would cover the yearly costs required to fully fund comprehensive, high-quality ECDPs for all children from low-income families in Minnesota (see Table 2).

The Minnesota Foundation for Early Childhood Development would provide funding for well-supported and highly effective ECDPs, whether supplementing funds for an existing Head Start center or helping start a new program. The Foundation would provide additional resources to enhance existing programs, such as boost teacher qualification and compensation, reduce teacher-student ratios and expand curriculum resources. Furthermore, the Foundation would provide start-up funds for new ECDPs to help reach all eligible children.

We contend that funding for ECDPs should reach the level of model program status, such as the Perry School program, since this is the level at which high returns have been demonstrated. Well-funded ECDPs would ensure that all teachers have a degree in early childhood education and are paid at a level that keeps turnover to a minimum. Furthermore, ECDPs would maintain low student-to-teacher ratios and use high-quality curriculum materials. Funds should also be allocated for research to track the improvement of participating children and identify where additional support may be needed. Participation in these programs should be voluntary, but incentives may be provided for families to participate. ECDPs should work effectively with parents and include them in the education process with their children.

Conclusion

The conventional view of economic development typically includes company headquarters, office towers, entertainment centers, and professional sports stadiums and arenas. In this paper, we have argued that in the future any proposed economic development list should have early childhood development at the top. The return on investment from early childhood development is extraordinary, resulting in better working public schools, more educated workers and less crime. A $1.5 billion investment to create the Minnesota Foundation for Early Childhood Development would go a long way toward ensuring that children from low-income families are ready to learn by the time they reach kindergarten.

Granted that in today's tight fiscal environment, $1.5 billion is a particularly large sum, which may mean we can't fully fund the program immediately. But we should be able to fully fund the endowment over the next five years. After measuring the public impact on the quality of life that such a foundation can provide, the costs of not making such an investment are just too great to ignore.

ENDNOTES

[1] Melvin Burstein & Arthur Rolnick, "Congress Should End the Economic War Among the States: Federal Reserve Bank of Minneapolis Annual Report Essay," *The Region* 9, no. 1 (March 1995), 3-4.

[2] "The Ruin of Britain's Universities," *The Economist* 365, No. 8299 (16 Nov. 2002), 51.

[3] David McCullough, *John Adams* (New York: Simon & Schuster, 2001), 222-225.

[4] Martha Farrell Erickson & Karen Kurz-Riemer, *Infants, Toddlers and Families: A Framework for Support and Intervention* (New York: The Guilford Press, 1999), 19.

[5] Dale C. Farran, "Another Decade of Intervention for Children Who Are Low Income or Disabled: What Do We Know Now?" in *Handbook of Early Childhood Intervention*, ed. Jack P. Shonkoff and Samuel J. Meisels (Cambridge University Press, 2000), 511-512.

[6] Lawrence J. Schweinhart, Significant Benefits: *The High/Scope Perry Preschool Study Through Age 27* (Ypsilanti, Michigan: High/Scope Press, 1993), 32.

[7] Dale C. Farran, "Another Decade of Intervention for Children Who Are Low Income or Disabled: What Do We Know Now?" in *Handbook of Early Childhood Intervention*, ed. Jack P. Shonkoff and Samuel J. Meisels (Cambridge University Press, 2000), 516.

[8] Lawrence J. Schweinhart, Significant Benefits: *The High/Scope Perry Preschool Study Through Age 27* (Ypsilanti, Michigan: High/Scope Press, 1993), xv, 55.

[9] James J. Heckman and Pedro Carneiro, "Human Capital Policy," working paper, University of Chicago, August 2002.

[10] Dale C. Farran, "Another Decade of Intervention for Children Who Are Low Income or Disabled: What Do We Know Now?" in *Handbook of Early Childhood Intervention*, ed. Jack P. Shonkoff and Samuel J. Meisels (Cambridge University Press, 2000), 513-515.

[11] *Early Childhood and Family Support* [online], Minnesota Department of Children, Families & Learning Web Site [cited December 2002], available from World Wide Web: (http://cfl.state.mn.us/ecfi/).

[12] Ibid.

[13] Ibid.

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