

**NO THUG
LEFT BEHIND**

Obsessed with 'racial equality,' St. Paul Schools abandoned discipline—and unleashed mayhem

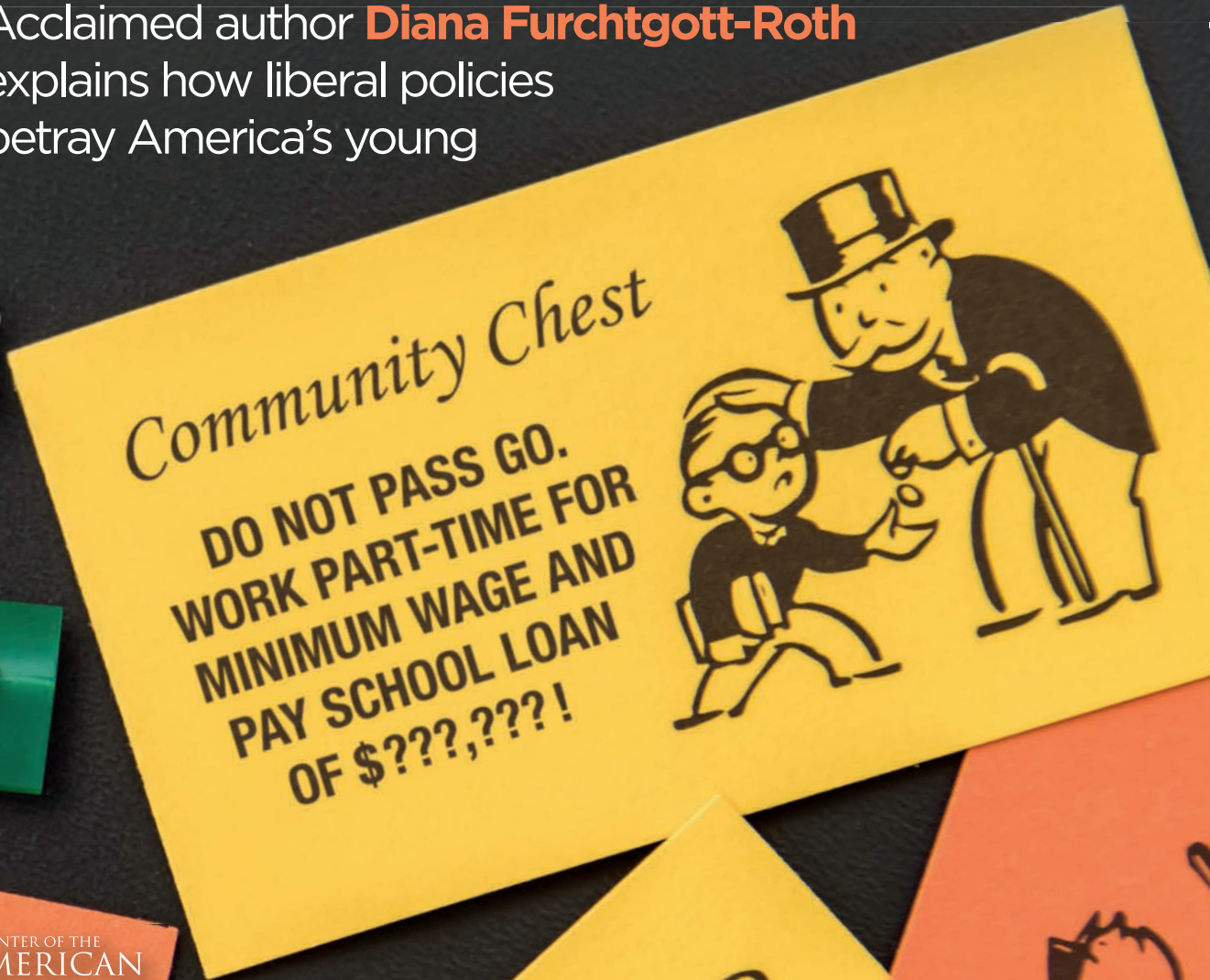
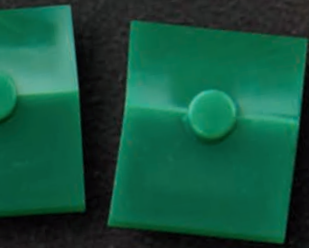
THINKING MINNESOTA

ISSUE 7
SPRING 2017

Interview

DISINHERITED

Acclaimed author **Diana Furchtgott-Roth** explains how liberal policies betray America's young





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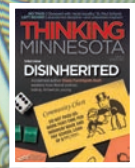


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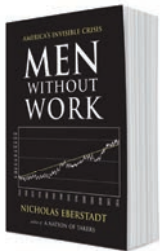
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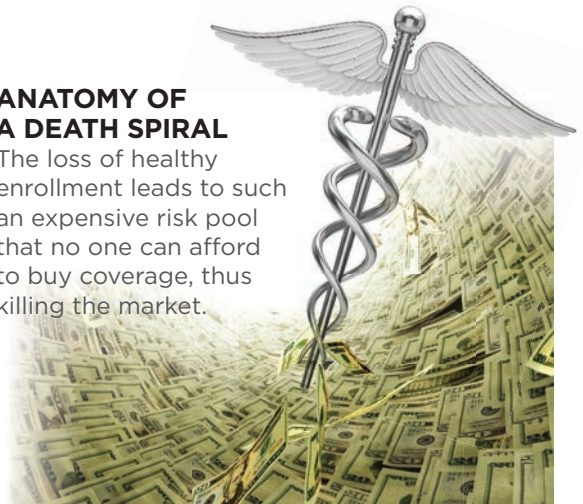


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The loss of healthy enrollment leads to such an expensive risk pool that no one can afford to buy coverage, thus killing the market.



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NOTE FROM THE CHAIRMAN

PRESCIENCE

Author David Lebedoff long ago predicted our current political dissonance. Dare I say 'deplorables?'

A captivating (and favorite) aspect of the recent presidential election is how the stunning Fall of the House of Clinton in 2016 ambushed the American political establishment the way Herb Brooks snuck up on the invincible Russians at Lake Placid.

But not everyone was surprised. Minneapolis attorney David Lebedoff, a guest columnist in this issue of *Thinking Minnesota* (page 22), saw it coming—in 1978, no less, just about the time 32-year old Bill Clinton was capturing his first term as Governor of Arkansas.

His 1978 *Esquire* article described how a “test-score meritocracy” was quietly undermining American majority rule.

David's prescience didn't address the Clintons by name, nor did he foresee the specific presidency of Donald Trump—that prediction belongs to an episode of *The Simpsons* that aired in 2000. Instead, he wrote an article in the August 1978 issue of *Esquire* magazine that described the political conditions that would lead to the most astounding presidential upset in the history of our republic.

His article, *The Dangerous Arrogance of the New Elite*, described how a growing “test-score meritocracy” was quietly undermining the American concept of



Ron Eibensteiner

governance by majority rule. David foresaw an elite class of confident Americans who attained cultural prominence through academic achievement and became disdainful of the “Left Behinds”—everyone else—even though all together the Left Behinds comprised a majority of American voters (can you say “deplorables?”). The new elite, “for the good of the country,” would bypass majority rule through the courts and by subverting the political process through arcane and complicated rule-making (can you say “super delegates?”). This process would succeed, he suggested, only until the Left Behinds found their political footing (can you say 2016?).

His column describes his theory far better than I ever could, but it's noteworthy
continued on page 4

continued from page 3

thy to mention that only conservative commentators embraced his hypothesis. Which is interesting, because David's point of view is consistently non-partisan, even though he's a lifetime Democrat. In fact, at the time he wrote the *Esquire* article, he was serving as treasurer of the DFL. (The parenthetical commentary above was mine, not his.)

David developed the *Esquire* article into two subsequent books, *The New Elite: The Death of Democracy* (1978) and *The Uncivil War: How a New Elite is Destroying Our Democracy* (2004).

David is a talented writer and an impressively original thinker—a modern Alexis de Tocqueville. We're delighted to have him in our pages.

* * *

We created *Thinking Minnesota* to promote American Experiment's free-market views and activities to a wide audience of policy-makers, media, and grassroots Minnesotans. We know that all great policy ideas, no matter how valuable, won't accomplish a thing if they don't attract the attention of policy-makers and voters.

We like to traffic in big ideas, even if some may consider them uncomfortable. Consider this issue:

- *Disinherited*, the cover story. Author Diana Furchgott-Roth, a senior fellow at the Manhattan Institute, last year published a provocative and very readable book about how liberal policies betray America's young people. After she spoke to an overflow audience at a recent American Experiment event (which included five tables of high school student), we prevailed upon her to do a follow-up q&a (page 34).
- *Met Council*. No organization of greater consequence to the future of the Twin Cities gets so little public attention as the unelected public oligarchy known as the Metropolitan Council. In *How the Met Council Miscalculates the Twin Cities* (page 28), Cato Institute

scholar Randal O'Toole describes what's at stake. O'Toole is a premier national expert on the interrelationships among urban growth, public lands and transportation. His compelling analysis of the Met Council is among the best I've read.

- *No Thug Left Behind*. American Experiment Senior Policy Fellow Kathy Kersten used an earlier issue of *Thinking Minnesota* to first describe the almost surreal way St. Paul school administrators relinquished their authority to a collection of unchecked student bullies. She followed this up with a more in-depth analysis that first appeared in *City Journal*, the prestigious national magazine produced by the Manhattan Institute. We reprinted it here (page 38). You can't make this stuff up.
- *Health Care*. As Congress prepares to legislatively re-litigate America's system of health care, Peter Nelson, American Experiment's ubiquitous senior policy fellow, offers his timely and incisive take on what it means to Minnesota (page 44). Peter has become the go-to analyst about health care in Minnesota. And not for nothing, the White House recently invited to participate in health care briefings.

I hope you'll agree with me that this issue of *Thinking Minnesota* is our best ever—not least for how well it is designed. For some reason, think-tank poohbahs apparently assume that presenting their ideas in long columns of uninterrupted grey text will somehow preserve the intellectual virtue of their work. This might work when communicating within the echo chamber of other think tank intellectuals, but otherwise not so much.

We're more enthusiastic than ever about the depth, quality and relevance of the projects we're working on at American Experiment. The ultimate success of *Thinking Minnesota*, we knew, would depend on how many people engaged with our ideas, which meant making our

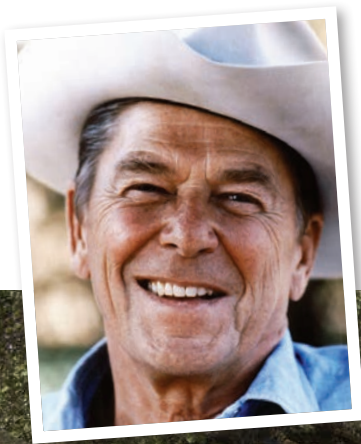
➔ DID YOU KNOW?

Interesting facts from a report from the Tax Foundation.

- ✓ Minnesota has one of the worst business tax climates in the country. Minnesota ranks 46th out of 50 in the [Tax Foundation's] State Business Tax Climate Index (2017).
- ✓ Minnesota has the 8th highest tax burden in the nation.
- ✓ Minnesota's state corporate income tax rate of 9.8 percent is the 3rd highest in the nation, following only Iowa (12 percent) and Pennsylvania (9.99 percent).
- ✓ Not only is Minnesota's top marginal individual income tax rate the 3rd highest in the country, but the top rate of 9.85 percent kicks in at a relatively low income level of \$155,650.
- ✓ Minnesota is one of only 18 states and the District of Columbia that has an estate or inheritance tax.

content graphically inviting. (My proposal for a swimsuit edition went nowhere.) We're grateful to creative director Scott Buchschacher who demonstrates obvious creativity and talent. From my perch, there is no better looking magazine anywhere in Minnesota and certainly anywhere in the world of regional think tanks.

And readers clearly agree. *Thinking Minnesota* elicits as many friendly calls and emails as anything we do. I rarely go a day without someone mentioning how much they enjoy the magazine. Further proof: In just six issues, our readership has grown from 8,000 to 40,000+—and we're still growing! ★



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UP FRONT

Met Council

DC'S VIEW OF THE MET COUNCIL

Congressman Jason Lewis would contain the council from DC
by Kim Crockett

Federal bureaucrats promulgated a new rule regarding metropolitan planning organizations (MPOs) the day before President Trump took office.

The rule may have already extended the boundaries of the Met Council (the metro area's MPO) beyond the seven-county metro area for federal transportation planning (and related housing issues). The Met Council could even theoretically jump the border to Hudson in St. Croix County, Wisconsin.

As Randall O'Toole from CATO put it, "MPOs are a creature of the feds. If the state has given the Met Council special powers (such as taxing authority) in a seven-county area, that can't change. But the transportation planning authority mandated by the feds can extend across more than seven counties if the feds say so."

The federal government does not want to deal with more than one authority for an urbanized area. "This rule clarifies that an (MPO) must include an entire urbanized area (UZA) and the contiguous area expected to become urbanized within a 20-year forecast period for the metropolitan transportation plan."

What is puzzling and disturbing is that the Met Council is already doing transportation planning in Wright and Sherburne Counties under an agreement signed in 2014. Those counties are outside the seven-county metro area. The

Center is trying to figure out how that happened and how it happened so quietly.

Even though this rule was slammed hard during the public comment period, federal officials ignored concerns about outdated ideas like local control and self-governance. "This final rule revises the transportation planning regulations to promote more effective regional planning by States and metropolitan planning organizations (MPO)."

If the Met Council met an explicit federal requirement that elected officials sit on the Council and the Council were truly just a planning body, this expansion of MPO boundaries might be slightly less alarming, but the Met Council's unique and unaccountable governance structure (all members appointed by governor) has been "grandfathered" for years.

This is why the Center has urged the Legislature to review both the governance structure and the scope of authority of

the Council. Until both are addressed, Minnesota will get more bad outcomes like an expensive LRT system that has done nothing to relieve road congestion and a transportation policy that starves the metro area of new road lanes and money for proper road maintenance.

What are Minnesota leaders doing about this creeping super-regionalism?

After the Center alerted him, Congressman Jason Lewis (R-MN-02), who sits on the House Transportation Committee, quickly filed a resolution of disapproval under the Congressional Review Act. This got the attention of his colleague, Daniel Lipinski (D-IL-03). The Congressmen have agreed on a bipartisan bill (HF 1346) to repeal the rule. This rule does not have support from most elected officials at any level of government; only bureaucrats liked it, so its repeal should pass Congress.

Congressman Lewis said, "The DOT made a serious overreach in the Metropolitan Planning Organization (MPO) rule. This rule takes power away from local municipalities and states and could allow the Met Council to levy taxes outside the cities to fund special projects."

The Center does not read the Federal Register just for kicks. We got lucky. Our friend Kevin Terrell of Katana Consulting stumbled on this new rule. What other rules should be rolled back? ★





REFUGEES

Why Minnesota Should Welcome a “Time-Out”

Minnesota is the Leading U.S. Destination for Refugees

by Kim Crockett

The Trump administration’s executive order on foreign terrorists is primarily aimed at addressing security threats from failed states, but the order also begins to address the unaccountable nature of the refugee resettlement program and its

impact on the various states.

Refugee resettlement is a federal program funded heavily by state taxpayers. The federal government looks for three things when placing refugees: generous welfare and social services, skilled place-

ment agencies (e.g., Arrive Ministries, Lutheran Social Services, and Catholic Charities), and the presence of kin.

Not surprisingly, Minnesota has the highest rate of refugee resettlement on a per capita basis in the country.

Center of the American Experiment cannot report with any precision who has been placed here and what it costs. We cannot assess the impact of refugees on school budgets or the availability of affordable housing. Over decades, the growing financial and social costs have been absorbed, with little discussion or oversight, into state and local budgets.

Refugees are eligible for the same welfare benefits as Minnesota citizens, and much more. Yet refugee specific costs are not readily available. Moreover, the public data is not consistent across federal and state databases.

Most states agreed to be part of the refugee program decades ago. Even as the world has grown more chaotic, the federal government has grown indifferent to the disproportionate concentration of refugees among the various states.

Minnesota now welcomes refugees primarily from states where Islam, Buddhism, Hinduism, and/or animism constitute the majority religions. Most come from failed Muslim-majority states like Somalia. Refugees often arrive with little proficiency in English and without skills required for gainful employment. They also bring cultural and law enforcement challenges: The practice of polygamy and female genital mutilation, low workforce participation by men, and inexperience with the requirements of

Key Minnesota VOLAGs	Highest Reported Individual Compensation	Total Funds Dedicated to Employee Compensation	Percent of Contributions Received from Federal Government
American Refugee Committee (Minneapolis)	\$264,751	\$16,822,718	78%
Catholic Charities Minneapolis/St. Paul	\$231,956	\$27,251,860	59%
Lutheran Social Service of Minnesota	\$229,789	\$56,471,634	71%*
Arrive Ministries Minneapolis	\$89,547	\$664,049	71%

*This measure reflects government-related contributions (of which there was at least \$63 million) as a portion of total revenue rather than contributions because of the organization’s method of reporting government funding.

citizenship and voting.

Refugees need hands-on, individualized help if they are to transition to self-sufficiency and U.S. citizenship. The irony is that settling large numbers of refugees and placing them on welfare decreases their likelihood of success, because it undermines the desire to integrate. It also relieves Minnesotans of the burden of spending any of their own money or time on this humanitarian enterprise.

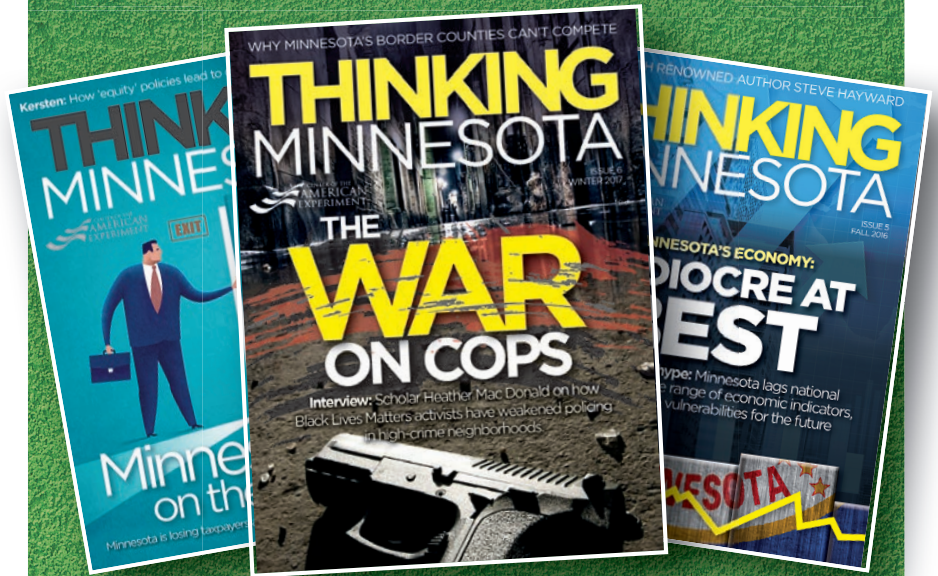
To make integration even less likely, placement agencies, which get most of their budgets from government contracts, cannot share their faith with refugees. “The Department of State has cooperative agreements with... resettlement agencies to resettle refugees. While some of the agencies have religious affiliations, they are not allowed to proselytize” (U.S. Department of State).

Yet the resettlement program has high and hurried expectations: “After one year, refugees are required to apply for permanent residence (commonly referred to as a green card), and after five years in the United States, a refugee is eligible to apply for U.S. citizenship” (U.S. Department of State).

It is for all these reasons that the president’s order should be welcomed. It calls for “...state and local jurisdictions (to) be granted a role in... determining the... settlement in their jurisdictions of... refugees.” It also calls for greater transparency and accountability by gathering and reporting basic data including “the long-term costs of the... program at the federal, state, and local levels, along with recommendations about how to curtail those costs.” It also wisely looks at what it would cost to help refugees stay closer to home so they can eventually return to rebuild their countries.

Minnesota needs much more time than the Trump executive order provides to figure out how to introduce ourselves properly to the many and diverse refugees who already call Minnesota home, but it is a welcome and long-overdue shift in policy. ★

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Pensions

Make-Believe Returns

Why there is no budget surplus this biennium—or this century

by Kim Crockett

One of the hottest seats at the Capitol these days is at the Pension Commission. The hearing room has been packed with retirees, police officers and other public employees, union officials, and lobbyists. It's hard to get a seat on Tuesday nights.

Sensible but modest changes to benefits are on the table, along with increases in contributions by employers (taxpayers) and employees. As always, the burden will fall heaviest on taxpayers, because pensions are run by politicians. Government unions, present on all sides of the table, out-vote taxpayers every time.

Here are a few highlights mid-session:

Using the faulty assumptions that understate the problem, the unfunded liability has gone up another \$2 billion, taking Minnesota's overall deficit to \$17.8 billion. The really bad girl in the bunch is Teachers Retirement Association (TRA), now \$6.5 billion short.

This is why there is no budget surplus this biennium, and there will never be a true surplus until this liability is paid down and pensions are no longer “off the books.”

The Governor's “Blue Ribbon Panel” called for immediately lowering the assumed rate of return/discount rate of 7.5 percent; increased employer and employee contributions; and reduced COLAs. To ease that pain: push out the amortization period and more “state aid.”

Mansco Perry, executive director of State Board of Investment (SBI), said something important and new: that the



assumed rate of return and discount rate should be determined separately. This is sage advice, not heard before from any state official.

Unfortunately, there is nothing new here. Taxpayers are already pouring an additional \$117 million in cash and additional contributions into certain funds on top of annual contributions. As for dropping to 7.5 percent, that may seem bold, but Minnesota is just playing catch up with other states (and reality).

Still there is a shift in tone. Maybe after a decade of failed reforms, Minnesota's leaders are starting to realize that make-believe returns are not going to save a pension system with unrealistic funding and benefit policies and that failing to make annual payments has robbed our future.

Retirees sit at hearings struggling to

understand why their contributions were not enough. Last year, union leaders asked the Governor to veto a bipartisan attempt to do good things. That veto hurt retirees, and employees, putting off the inevitable.

The commission is trying to “save” the defined-benefit system, but like an emergency room doctor giving a blood transfusion to a dying patient, these heroic efforts will not change the long-term diagnosis. Yet if these new policies are adopted, it is going to become apparent very quickly just how sick the patient is. Generational inequities will be glaring.

Pension policy shifted long ago from “pay as you go” to

borrowing from future employees and taxpayers. Almost half of the contributions go to pay the unfunded liability. In the case of TRA, the unfunded liability payment now exceeds the annual cost of current employee benefits.

If Minnesota wants to keep its pension promise, the plans must be closed and benefits reduced (no more compounding COLAs). Then, the State must use honest numbers to figure out the real liability. It will be the hardest thing Minnesota has ever done.

New employees should then be offered defined contribution plans with lots of options to attract the best employees possible in this highly mobile, modern economy. Then as employees save for their future, they can control their own destiny and own their assets. ★

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“I started this business with a corporate focus, but quickly learned that individuals would also benefit from the institutional practices that makes it possible to manage



risk by providing a thorough and defensible process. We are firm believers in the fiduciary process, and committed to staying informed and current on financial and economic issues”.

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TOM STEWARD

POWER TO THE PEOPLE

Lawmakers Aim to Make the Met Council Accountable

The Metropolitan Council still holds the title of the biggest, most powerful unelected regional government in the country, bar none. That would change under proposed legislation calling for local elected officials to replace political appointees of the governor as Met Council representatives.

“This legislation brings more openness to the Metropolitan Council by aligning its membership with local elected officials, giving regular citizens more voice in the make-up of the council and the important policies it implements,” said Rep. Tony Albright (R-Prior Lake), author of HF 828.

While the proposed legislative reforms were embraced by the agency’s critics as a step in the right direction, Center of the American Experiment urged legislators to take further measures to reduce the Met Council’s unprecedented scope of authority.

“The metro area needs good regional planning, but it does not need a powerful regional ‘government’ that dictates decisions that are best made by local officials,” said Kim Crockett, Center of the American Experiment vice president and senior policy fellow. “It does not need a regional body dictating transit, transportation policy as it affects roads, housing, water and sewer, and park policies.”

The Met Council is the sole metropolitan planning organization in the nation that’s not comprised of local elected officials who can be held accountable on regional issues decided by the agency. Federal law requires all metropolitan planning organizations to have a majority of elected officials, but the Met Council’s



Tom Steward

unique governance structure was “grandfathered.”

At the same time, the Met Council wields a scope of authority far beyond the transportation planning that defines other regional governments, including the power to levy taxes.

As a result, the Met Council has evolved, for all practical purposes, into a state agency under control of the governor, rather than an independent planning board in the eyes of a bipartisan coalition of cities and counties supporting the restructuring proposal.

“There is a very strong disconnect between very many local governments and the Metropolitan Council that’s evolved over many decades. Many local governments feel disenfranchised, cut out, on the outside looking in,” Dakota County

Commissioner Chris Gerlach told the House Transportation and Regional Governance Policy Committee on Monday.

Momentum to reform the billion-dollar agency has been mounting since metro cities and counties began seriously discussing the issue in 2014. Center of the American Experiment has hosted numerous community forums to focus attention on Met Council lack of transparency and overreach.

For example, when state lawmakers declined to fund the Southwest Light Rail Transit line, Met Council announced it would go forward with funding the controversial \$2 billion project anyway, despite previous assurances it would not. The regional authority has made millions of dollars in taxpayer-funded park grants for local governments contingent on monitoring the race of visitors with “equity toolkits.” In addition, the agency’s unpopular 30-year comprehensive plan for the seven-county metro region, Thrive MSP 2040, has been rejected by four suburban counties and opposed by many cities.

“We are told how many types of certain housing units we must have and how our own comprehensive plan needs to look. If we don’t conform, we have financing withheld. This financing comes in the form of taxation and sewer fees on our own residents, said Jason King, a Blaine city councilor at a news conference to highlight the legislation. “... This overreach into municipal planning does not respect that local elected officials know what is best for their own city and how it should be allowed to grow and prosper.”

The proposed restructuring would

Use budget surplus to make Minnesota ready for change

By Doug Loon, president, Minnesota Chamber of Commerce

increase the number of Met Council board members from 17 to 27. Most representatives would be selected by local elected officials from the 16 Met Council districts and would have to hold election certificates themselves.

An advocacy group called Metro Cities opposes the proposal, partly on the grounds that local elected officials could face a conflict of interest when voting on issues that affect their constituents in their roles on the Met Council. Others raised concerns about further politicizing the process.

“...This overreach into municipal planning does not respect that local elected officials know what is best for their own city and how it should be allowed to grow and prosper.”

“We rely on efficient, high-quality regional infrastructure and services,” Cottage Grove Mayor Myron Bailey testified in opposition. “The potential to undermine the provision of these services should not be underestimated as you consider this type of governance change.”

“The problem with that argument is that Minnesota has ten non-urban and seven urban regional authorities comprised of elected officials and other stakeholders that make regional decisions with much less drama than the Met Council,” Crockett said. “The best way to eliminate the concern about conflict of interest is to reduce the scope of the Met Council’s authority, starting with transit. The Met Council is currently empowered to plan, own, and operate transit for the metro area, a clear conflict of interest that would not be eliminated by adding elected officials.” ★

The numbers are in. Governor Mark Dayton has presented his budget, and the February forecast has been released – setting the framework for debate on all finance bills to be considered by the 2017 Legislature.

It’s difficult enough to compete in a global economy and deal with circumstances out of our control. That’s all the more reason to enhance the arsenal for Minnesota businesses to keep pace with a changing economic landscape. The ability of owners and managers to adapt to change is more important than ever to business survival, and key to their decisions to invest in Minnesota operations.

Meaningful tax relief for Minnesota businesses leads the Minnesota Chamber’s legislative package to make Minnesota ready for the future – ready for change and ready to grow. The February forecast delivered a projected budget surplus of \$1.65 billion for the two-year cycle beginning July 1, 2017. This surplus provides a tremendous opportunity to help Minnesota companies invest and adapt to economic change by enacting some much-needed tax relief.

The governor’s original budget proposal, unfortunately, uses nearly 90% of the surplus on new spending, growing Minnesota’s general fund spending by 10%. His proposal includes both tax increases and tax cuts, netting only \$54 million in overall tax relief, or 4% of the surplus. He actually increases taxes on businesses by \$100 million.

Four specific areas of tax relief headline our legislative agenda:

- Enact meaningful business property tax relief by eliminating the automatic business property tax inflator and reducing the state levy.
- Reduce high income-tax burdens impeding investment in Minnesota businesses and jobs by reducing the rate on “pass-through” businesses.
- Enhance the research-and-development tax credit.
- Repeal Minnesota’s estate tax or, at minimum, conform to the federal threshold.

Our top priority is to reduce the statewide business property tax, which will benefit every Minnesota business. Unlike homeowners and most other properties that pay only local property taxes, businesses also pay the state levy that goes into the general fund. This tax is about one-third of a business property tax bill. It increases automatically every year by an inflation index.

Property taxes for Minnesota businesses are second highest for rural properties and seventh highest for metro properties. Reducing the statewide business property tax will not reduce the taxes that businesses pay to local governments. It will not shift any taxes to homeowners.

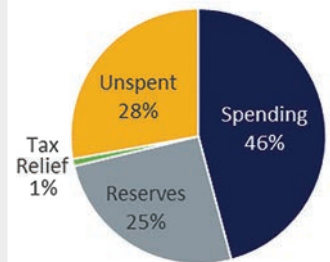
Most Minnesotans may dismiss higher business property taxes as out of sight and out of mind. In truth, higher taxes are ultimately paid by consumers in higher prices for goods and services. Higher taxes also limit what’s available for employee raises, reinvestment in the business, expansion and potential job growth.

Minnesota regularly wins high marks for its quality of life, and we celebrate that. But that is threatened unless our state is ready for economic change. High taxes hinder the ability of Minnesota businesses to invest in the changes necessary to keep them relevant and competitive in a global economy.

Reducing the state’s tax burden will give Minnesota businesses a greater ability to adapt to change and reinvest in Minnesota. That benefits employers and employees alike.

Doug Loon is president of the Minnesota Chamber of Commerce – www.mnchamber.com.

What happened to \$2.57 billion surplus from 2015 and 2016 sessions?



This chart shows the allocation of the state’s \$2.57 billion surplus from the 2015 and 2016 legislative sessions that was available for state’s budget Fiscal Years 2016/17. Only 1% was used for tax relief.



**MINNESOTA
READY**

Fall Briefing

The Future of Work

Acclaimed author to kick off the Center's Alternative Education Project

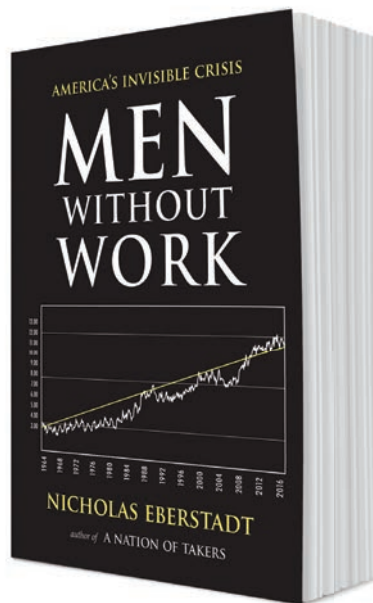
Nicholas Eberstadt, author of the acclaimed and important new book *Men Without Work: America's Invisible Crisis*, will keynote on April 19 the official kick-off of Center of the American Experiment's new multi-year project to help young men and women win good-paying jobs and solid middle-class careers without a four-year college degree.

The project, *Overlooked Educational Routes to Great Careers*, likewise, will increase the chances that Minnesota employers will be able to find and hire sufficient numbers of employees with first-tier technical skills so their businesses can thrive and remain in the state. Finding enough expertly trained people is frequently not the case now, especially with Baby Boomers retiring in huge numbers.

Eberstadt is the Henry Wendt Chair in Political Economy at the American Enterprise Institute in Washington. *Financial Times* said of *Men Without Work*, "Eberstadt has put his finger on what may be the most important socio-economic question the US will face over the next quarter-century."

The event will be 4:30 p.m., April 19, at the Minnesota History Center in St. Paul. A reception will follow.

In laying groundwork for the initiative, the project's director, American Experiment Founder Mitch Pearlstein, along with President John Hinderaker and Senior Fellow Katherine Kersten, have met with scores of business and labor leaders, educators, officeholders, and others, with their responses,



The event will kick off a new multi-year project to help young men and women win good-paying jobs and solid middle-class careers without a four-year college degree

according to Pearlstein, "overwhelmingly enthusiastic."

The venture is grounded in the belief that American colleges and universities are the envy of the world, and nothing anyone at the Center ever will say or write (Pearlstein and his colleagues assure) will seek to dissuade any young people from attending one, if that is their dream and plan. But the project also starts from the premise that "many young men and women really don't want to spend a minimum of four years in college, but they enroll nevertheless. They do so possibly because of parental, peer, or more enveloping pressures, or

because they believe a baccalaureate degree is their *only* avenue to occupational success – when it definitely is not." Many such attempts "end sadly, with students not only dropping out but routinely winding up in sizable debt." That is not good, Pearlstein concluded, "for anybody, or for the economy, or for society itself."

At the core of the project is better understanding and overcoming the deep cultural bias that just about every young American ought to seek a four-year degree, at minimum.

What kinds of educational options might work better for countless young men and women? Focus so far has been on alternative routes such as apprenticeships, one- and two-year certificate programs in community and technical colleges, and rigorous job training in the military, among other avenues, including enrolling in a one- or two-year hands-on program *after* earning a four-year degree in order finally to learn a marketable skill in the trades or in another technical or artisanal area.

"One of the things Kathy, John, and I have learned in our many conversations," Pearlstein said, "is that there already is an enormous amount of activity going on in specific fields aimed at urging young people to consider pursuing a career in one of them. But there isn't any organization or voice providing what might be described as an 'overarching narrative' that both accentuates and brings a measure of coherence to all the efforts underway in Minnesota."

Providing that ongoing story, Pearlstein summed up, in collaboration with an eclectic range of groups and individuals throughout the state – starting with students and parents themselves – will be "one of the project's most vital contributions."

There is no charge for the event, but advance registration is required. Sign up at www.americanexperiment.org or call 612-325-3597. ★

Heather Mac Donald

War on Cops: The Speech



Author Heather Mac Donald spoke to a quarterly event under series entitled How Liberal Policies Hurt the Middle Class, the Poor and Minorities.

More than 100 police officers from across Minnesota joined 150 others to hear author Heather Mac Donald explain how Black Lives Matters protests have affected police protection in the neighborhoods that need it most. Mac Donald, a fellow at the Manhattan Institute, wrote the highly acclaimed book, *The War on Cops: How the New Attack on Law and Order Makes Everyone Less Safe*. The speech was part of a year-long series entitled How Liberal Policies Hurt the Middle Class, the Poor and Minorities. ★



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2017 Annual Dinner

Cotton will keynote American Experiment's gala in June

U.S. Senator Tom Cotton of Arkansas will be the keynote speaker for American Experiment's annual gala on Saturday, June 17, at the Hilton Minneapolis (1001 South Marquette Avenue). A cocktail reception will begin at 5:30 p.m.; dinner will begin at 7 p.m.

America's youngest U.S. Senator, Cotton is considered one of the most refreshing voices in Washington. *Atlantic* magazine calls him a "conservative superstar," and the *Washington Post* considers him "the star of the 2014 Senate class" and the "leading GOP national security hawk."

Cotton grew up on his family's cattle farm. After graduating from Harvard Law School, he won a clerkship with a federal judge and later began work at a law firm. The 9/11 attacks moved him to leave private law practice and join in the U.S. Army as an Infantry Officer. His five years on active duty included combat tours in Iraq and Afghanistan. His military decorations include the Bronze Star Medal, Combat Infantry Badge, and Ranger Tab.



Senator Tom Cotton

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NEWS

National School Choice Week

The Power of Choice

Former union chief George Parker now advocates education “by any means necessary”

George Parker, then-president of Washington D.C.’s powerful teacher’s union, experienced a powerful and career-changing “aha” moment during a presentation with a class of third-graders.

When asked to describe his job, he said, “I make sure you get the kind of resources that you need and that your teachers, and then I help to protect the rights of teachers.”

When he had finished, a little girl approached him with a hug. “Baby,” he asked, “why did you just hug me?”

“Because you said you care about us, and you make sure we get the best teachers,” she said.

He remembers saying to himself, as he drove back to his office, “You just lied to that little girl. I told her I ensure that she gets the best teachers.” He “had just spent \$10 thousand to make sure a bad teacher got right back in (the classroom).”

Parker told the story at DeLaSalle High School in Minneapolis as the keynote speaker at a celebratory National School Choice Week community breakfast co-sponsored by Center of the American Experiment and The Institute for Justice.

As the union chief, he said, he led the community charge against school choice, always adhering to talking points that castigated proponents of choice as wanting to make money off children. “We couldn’t go to parents and say, ‘we’re against charters because



they’re going to decrease the amount of money coming into the union’s coffers.’ So, we’re great, and we’re much greater than reformers in terms of knowing how to package our message to the public.”

The hug from the third grader changed his outlook, Parker said. “That little girl was me.” She is growing up poor, and education was my only way out of poverty.” Taking fire from unions nationwide, he became an opponent of seniority-based personnel decisions. “I’m probably the only former union president in the country who believed that student performance should be part of a teacher’s evaluation,” he says now. Ousted in the next union election, Parker became a national spokesman for the power of choice. “And not just charter schools,” he says. “Of vouchers, of tax credits, of home schooling, of private schooling. By any means that is necessary, we need to educate our children and educate the children who are the most vulnerable.” ★

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For 26 years, Center of the American Experiment has been Minnesota's leading voice on behalf of freedom and conservative common sense. Most often, that voice has been that of Center staff and Senior Fellows.

Sometimes, it has been that of honored guests and world leaders such as Bill Bennett, Jeane Kirkpatrick, Charles Krauthammer, George Will, Benjamin Netanyahu, and Margaret Thatcher.

But in either case as well as others, American Experiment's work simply would not be possible—our many megaphones silenced—without the support of friends like you.

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NOTE FROM THE FOUNDER

PREDICTIONS RECONSIDERED

How Did Such Smart People Get it So Wrong?

For a long time, my wife and I went to the State Fair every Labor Day. On a couple of those visits, after spending time watering up and speaking to officeholders and candidates at the Republican booth, we would pay our respects to Sen. Paul Wellstone, who would be greeting people a safe distance away. On at least one those occasions (I don't recall exactly how many as the heat was usually blurring), a portion of the conversation would go something like this when we reached the head of the line:

Me: "Senator, good to see you."

Wellstone: "Mitch and Diane, good to see you, too."

After a few additional pleasantries by the three of us about French fries or livestock or something, Paul would look at Diane while pointing at me and say to her, with excellent male-bonding intonation, "He's such a good guy, but how could such a good guy be so wrong?"

We would all laugh, and out of respect for the dignity and majesty of the U.S. Senate, I wouldn't say anything as crisply male in return. We would then laugh some more, wish each other a good year, and say good-bye.

I often remember those brief exchanges, in part, because Paul, his wife and others died in a plane crash not many years later. I also think of our conversations because I'm proud that American Experiment has never been afflicted by the kind of silly and destructive zeal that makes being human and sociable with those with whom we differ, ideologically or otherwise, beyond bounds. But in recent months I've been recalling one



Mitch Pearlstein

slice of those conversations in particular – "How can such a good guy be so wrong?" – as it kindles the question: "How could so many otherwise smart, even brilliant observers get Donald Trump's victory and Hillary Clinton's loss so wildly wrong?"

Professionally embarrassing as it might have been, mistaken prognosticators might take a sliver of comfort given the giant degree to which famous journalists and scholars got it wrong two generations ago regarding how Barry Goldwater's huge loss to Lyndon Johnson in 1964 would eventually play out. The following excerpts are from Rick Pearlstein's 2001 book, *Before the Storm: Barry Goldwater and the Unmaking of the American Consensus*. My own prediction is that you will have a hard time

picking a favorite laugher, as they are all gems. Rick, by the way, is not a relative as he spells his name wrong.

- "He has wrecked his party for a long time to come." *James "Scotty" Reston in the New York Times.*
- "The election has finished the Goldwater school of political reaction." *Richard Rovere in The New Yorker.*
- "This is surely a liberal epoch as the late Nineteenth Century was a conservative one." *James MacGregor Burns.*
- "The election results of 1964 seemed to demonstrate Thomas Dewey's prediction about what would happen if the parties were realigned on an ideological basis: 'The Democrats would win every election and the Republicans would lose every election.'" *Arthur M. Schlesinger Jr.*

Do the biographical sketches in Wikipedia for any of these four guys say anything about how humiliatingly wrong they were about what happened politically in the United States after 1964? Not a word is revealed.

Beyond, there is almost always safety in numbers, especially enormous numbers, as reflected in an admission by the well-respected and well-exposed Prof. Larry Sabato of the University of Virginia, who has said of the Trump-Clinton race: "The entire punditry industry got it wrong. The entire polling industry got it wrong. And the entire analyst industry got it wrong."

Yes, they did.

Is there a price to be paid—any kind

of price—for being so totally off? Bob Beckel is a venerable political hand who falls under at least two of these categories. A Democrat, he said during last year's race that Clinton would "crush Trump." For his acuity, Fox has brought him back to "The Five," where predicting is a staple.

Fair is fair, and fun is fun, as even well-trained meteorologists have been known to get their forecasts wrong once in a while. Is there any possible downside in all these political miscalculations, at least when it comes to their

I'm proud that American Experiment has never been afflicted by the kind of silly and destructive zeal that makes being human and sociable with those with whom we differ, ideologically or otherwise, beyond bounds.

entertainment value? Here's a thought, albeit admittedly a stretch.

Truly smart and brilliant economists have been predicting for a long time that the way Washington spends money is not sustainable and that things will grow even more out of whack, doing serious damage to the nation, as Baby Boomers continue to retire, and for decades afterwards, persist in falling apart expensively. If my guess is correct, these generally rigorous projections are attended to less seriously than are predictions regularly flying off the tops of talking heads.

I don't want to say the contrast is "sad," but you get the idea.

Mitch Pearlstein is Founder and American Experiment Senior Fellow. ★



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UNCIVIL WAR

A test score ‘meritocracy’ is battling the Left Behinds

Now we are engaged in a great uncivil war. What we see in headlines is not politics; it’s a new kind of class warfare. It’s been building in our country for more than 40 years, and if we continue to ignore the real nature of our national discord, it will certainly and soon become much worse.

The last ten presidential elections have been decided to an increasing degree not by issues so much as by class identity. The division is not primarily economic or racial; it’s something new in human history.

The class war now sundering our nation is between the New Elite and the Left Behinds. The New Elite is composed of the test score “meritocracy” that has gone from good grades at good schools to good jobs. It is prosperous but not rich. It numbers in the millions but will never by itself constitute a majority. There have been other elites before—warriors, priests, the very rich—but the new class differs from previous groups which held great power primarily because it feels that its ascendancy has been scientifically certified. It supposedly has been certified by SAT scores and other

tests designed merely to predict college performance but which now are mistakenly thought to measure what is called general intelligence.

The New Elite feel that their cognitive superiority has been proven and that they know best what is best for everyone else.

Everyone else is a member of a class called the Left Behinds. It constitutes a majority of the population. It includes billionaires and paupers, people of all colors and preferences, and, though this would come as a surprise to the New Elite, scholars as well as the poorly educated. “Everyone else” really is just everyone else. It’s all those who simply don’t identify with the new class.

You can tell who’s in which class by whether they rely on experience or experts. (Many people have aspects of both classes but increasingly identify with only one.) Oliver Wendell Holmes, who was very much a member of an old elite, said that a page of history is worth a volume of logic. That means he would be a Left Behind. A presidential spouse who actually put 500 experts in a room and told them to completely rewrite national health care, one-sixth of the economy, is

a member of the New Elite.

Warren Buffet is smarter than hell, but he is a Left Behind, because he relies more on experience than on experts. He is of course an expert, but that has been certified by the marketplace, not by a test score.

The division between the two classes is less partisan than many people think. There was a time when most members of the New Elite probably were Democrats, but the vast growth of the test-score meritocracy and in the professional rewards it expects has permitted a sizable number of high-salaried people to identify more closely with class than with party.

Why does all this matter? Because the real significance of the growth of the New Elite has been its dismantling of our institutions of representative government.

If one believes that there is such a thing as general intelligence and that it has been accurately tested and that, therefore, we know who the smartest people are, then there is no longer any need for majority rule. This is the core belief of the new class that has been both busy and successful in the task of dismantling our democracy.

It is impossible to exaggerate the damage that already has been done. The links between the governed and the government have been systematically cut or weakened for decades. This has been accomplished through court-made law, gerrymandered legislative districts in which almost no incumbent party can lose (only eight incumbent congressmen out of 435 were defeated in the tumultuous election of 2016), and through displacement of



David Lebedoff, a Minneapolis attorney, is the author of seven books, including *Cleaning Up*, about the Exxon Valdez case, and *The Uncivil War: How a New Elite is Destroying our Democracy and The Same Man: George Orwell & Evelyn Waugh in Love and War*. He is a graduate of the University of Minnesota and Harvard Law School.

law and custom by political correctness. This is why so many millions in both parties feel that our country is moving in the wrong direction—it's because they feel that their votes no longer count. And they are right.

Thus, increasingly, for decades now, our presidential elections have been decided by the new class warfare. The public tries to determine which candidate is closer to the New Elite and then votes for the other one. Regardless of anything else, including even party or issues.

That's why Trump won. Most presidential contests are now decided in this way. It's why Reagan beat Carter; it's why Gore lost to "W," despite peace and prosperity giving Gore a huge early lead in the polls. It's why Obama, almost unknown at the time, took his party's endorsement from Hillary Clinton. Yes, his own education was elite, and his speech erudite, but many voters thought that his race and background had put him in touch with the concerns of voters denied both privilege and opportunity. It is possible that he lost more votes through having been a law professor than by being black. Bill Clinton won the presidency, and his wife could not—not so much because of gender bias as by the public perception that the spouses were at very different places on the New Elite-Left Behind scale.

I did not vote for Donald Trump, but this is not about who should have won. It's about the way we elect presidents now. It's about what happens when a democracy produces an elite that rejects democracy. It applies to both parties. To put a stop to election-by-backlash we have got to return to representative government. That means representation of all the people. We must replace the wires that have been cut.

The smartest person ever to serve as president was Lincoln, who knew that the greatest challenge of an uncivil war was to rededicate ourselves to a government of, by, and for the people— whose lives could teach them to know what was in their own best interest. ★



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I'm sitting where?

Wilmuth began his career with a job that put him mere steps from the Oval Office



By age 25, Ben Wilmuth had compiled a resume that most young politicians might imitate only by binge watching reruns of *West Wing*.

As executive assistant in the office of Josh Bolton, the White House chief of staff during the final two years of the administration of President George W. Bush, Wilmuth occupied a desk situated just steps away from the Oval Office. His vantage point enabled him to witness presidential decision-making at its more intimate levels.

His gig required him to shadow Bolton all the time he was at the White House. His day began well before Bolton would head to the Oval Office for a morning briefing, usually around 6:30 a.m. He would open the office and prepare documents for the first briefing, including national intelligence materials from the briefing room. When Bush wrapped up his day, usually 4 p.m., Wilmuth would focus on Bolton-related affairs, which would typically keep him

in the office until 9 p.m. or so.

Wilmuth entered the White House orbit by completing an internship in the White House Office of Intergovernmental Affairs after his junior year at Lafayette College. He returned after graduation for a brief stint in the correspondence office. Bolton hired him a year later.

“It was a great upgrade in real estate,” he remembers.

Wilmuth stayed in Bolton’s office until the administration turned the lights off. From there he accepted an offer to move to Dallas to help structure ideas for what the eventual Bush Foundation might look like.

Today 33, Wilmuth is an executive recruiter in the Minneapolis office of Heidrick and Struggles, where he specializes in finding CFO-types. He is also a founding board member of Center of the American Experiment’s Young Leadership Council.

His decision to leave Washington,

he says, was inspired by a speech Karl Rove gave to interns. Take this experience into the real world; find something you want to get good at, that maybe puts you in a position to make a contribution someday. Go go out in the real world and get a real job or a real life, and then be the farmer, doctor, or whatever who then uses those talents in some way to make your community better.

While some of this former colleagues were plotting stars to hitch and ways to ensure they hadn’t made their last trip on Air Force One or in a presidential motorcade Wilmuth left D.C. He and his now-wife Emily both enrolled in the MBA program at Kellogg School of Management and subsequently both initially accepted offers to work at Target’s corporate headquarters in Minneapolis.

Despite the heady experiences, his favorite White House memory is a personal one: During President Bush’s last year in office, Wilmuth invited both of his parents and his sister to be his guests at the White House Christmas party, where they visited the Oval Office and met the president.

Wilmuth recalls looking out across the South Lawn at the Ellipse and remembering a trip 17 years earlier when his family drove to D.C. in his dad’s old Pontiac. It was back in the days when citizens could still personally visit the white House. They stood in rain and cold for two hours to get a quick visit and glimpse of the White House Christmas Tree.

“That’s where we were,” he remembered. “And look where we are.”

Oh, and one other thing: Before leaving the administration, Wilmuth was a finalist for a contest called *White House Hotties*. He had no comment. ★

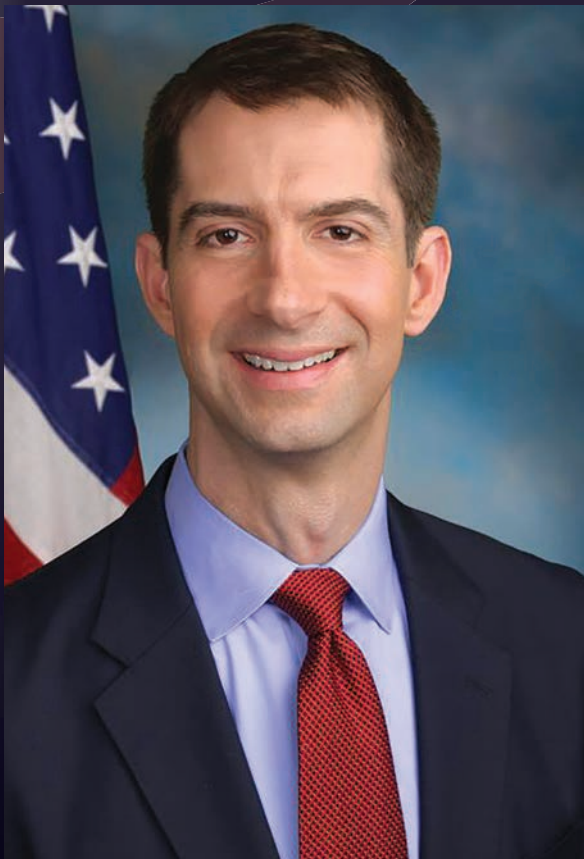


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ANNUAL DINNER GALA

SENATOR TOM COTTON

SATURDAY, JUNE 17
5:30 PM RECEPTION, 7:00 PM DINNER
HILTON MINNEAPOLIS
1001 S. MARQUETTE AVE., MINNEAPOLIS



Individual Seat - \$200

- 1 ticket to the Annual Dinner including Cocktail Reception, seated behind Bronze Tables

Sponsor A Student Table - \$1,000

- Provide tickets for 10 grateful students

Bronze Table - \$2,000

- 1 table, behind Silver Tables, with seating for 10 guests

Silver Table - \$5,000

- 2 tickets to a Photo Opportunity with Senator Tom Cotton from 5:45 - 6:15 pm
- 1 table, behind Gold Tables, with seating for 10 guests
- Printed recognition in the dinner program

Gold Table - \$10,000

- 10 tickets to a Photo Opportunity with Senator Tom Cotton from 5:45 - 6:15 pm
- 1 table, behind Platinum Tables, with seating for 10 guests
- Printed recognition in the dinner program

Platinum Table - \$25,000

- 2 guests invited to a private conversation with Senator Tom Cotton prior to the reception
- 2 guests seated at Senator Tom Cotton's dinner table
- 1 table, front of house, with seating for 10 guests
- 10 tickets to a Photo Opportunity with Senator Tom Cotton from 5:45 - 6:15 pm
- Printed recognition in the dinner program

To reserve your table or seat, contact: Kristen Sheehan at Ks@k2andcompany.com

Register online at: www.americanexperiment.org or **612-325-3597**

New staff member

Efficient Education

Thorman engaged experiences in the Senate, at Heritage, and in a classroom (teaching Latin, no less) to prepare for her new role at American Experiment

Catrin Thorman could not have plotted her path to a policy fellowship with better or more relevant experience in a relatively short period. Thorman, 26, was recently hired as a fulltime in-house policy fellow at Center of the American Experiment, where she hopes to specialize in education policy.

Thorman was born in Stillwater, Minnesota, grew up in Osceola, Wisconsin, and attended Chisago Lakes (Minnesota) High School. While under the tutelage of a life-changing high school teacher, she developed an interest in American government. She honed her political chops by working on several Wisconsin legislative races, particularly helping State Senator Sheila Harsdorf easily survive a union-initiated recall attempt in the turmoil surrounding Governor Scott Walker in 2011.

She earned a degree in political science from Azusa Pacific University, an elite Christian school near Los Angeles, where she also completed an internship in the Washington, D.C., office of U.S. Senator Ron Johnson of Wisconsin. Thorman returned to D.C. after graduation to complete an internship at the Heritage Foundation, where she worked on education policy with Lindsey Burke, a policy expert who specializes in reducing the federal impact on education as well as in the benefits of choice in education.

She then paired the policy experience with time in the classroom. After Heritage, Thorman took on a two-year hitch in Phoenix with Teach for America, where she taught fifth grade general education and sixth-grade Latin (that's right, *Latin*) at a Title I charter school that served low-income families.

Those experiences confirmed for her



Catrin Thorman

PHOTOGRAPH BY PATRICK KELLY

that there's a serious disconnect between what goes on in D.C., and the type of education reform that needs to go into the classroom and that school choice is an effective solution.

"There are barriers in place that prevent students from reaching their fullest potential," she says. "Every student learns differently. They need different tools to succeed. It is up to the teacher to make sure that that student has access to those tools."

Parents know their children best, and the parent-teacher relationship ensures that students reach their fullest potential, she says.

She adds: All children can't thrive in the same environment. "Parents should have the choice of sending their child to a traditional public school, a charter school, or a parochial school, knowing full well that that decision will be the best decision for their child."

Legislators, she says, would benefit from experience in the classroom. "They don't see how difficult it can be for students to grasp certain concepts if teaching isn't differentiated. I think it's important to have that working relationship with the teacher, the parent, and the child to figure out where the child can learn most effectively." ★

5 QUESTIONS

WITH THE ROOKIE

Matt Michalski, “The Rookie,” has been the producer and on-air personality for Garage Logic for some 27 years. He also hosts American Experiment’s weekly interview on the show’s statewide network. President John Hinderaker recently asked him five questions.



Rookie, you’ve become a famous in Minnesota because of your involvement in Garage Logic, the Joe Soucheray show that airs every day on ESPN1500. How’d you get into the radio business?

I failed out at the U. I’d seen the ads on TV about the Brown Institute, so I talked to my mom and to my wife, who was my girlfriend at the time, and said, “I’m thinking about going to broadcast school.” They both said, “Thank God, because you know what, you’re not doing anything at the U.”

After about six months (working for KSTP-TV), I got the job for AM1500, working weekend overnights and then Monday nights, which included *Sports Talk* with (*Star Tribune* columnist Patrick) Reusse and (*Pioneer Press* columnist Joe) Soucheray.

If I recall, they weren’t known for being kind to their producers.

My dad had listened to those guys, so I knew how rough they were with their producers. My first night on the job, I went up to them and said, “I’m new at this, guys. Please go easy on me. And they said, “Okay.” But that’s when I got my nickname. Reusse said, “Hey since you’re a rookie, go get me the weather,” “Hey, rookie, go grab me the sports page,” “Hey rookie ...” They never called me Matt. Twenty-seven years later it’s still sticking.

How did Garage Logic get going?

Joe realized he could create a mythical town where problems were figured out in the garage, where common sense

prevails. The concept was an immediate hit. The charm about Garage Logic is that Joe doesn’t pretend to know all the answers. His attitude is, let’s sit around the picnic table in the garage and talk about the problems. If someone calls and disagrees with Joe, he takes the call and listens. He won’t shout them down. He’ll listen to all points and then tell them why they’re wrong—in a pleasant way. I was very lucky to be paired up with Joe, because we hit it off. You can’t fake chemistry in radio.

Center of the American Experiment has been doing a weekly three-minute spot with you that airs every Monday afternoon. What kind of feedback do you get about it?

The feedback I get is that it sounds like an extension of the show. And that’s the biggest compliment advertising can get. It makes people feel part of the conversation. They’re fun spots to do because there’s no script. We want to get the website right and make sure it’s in the time restraints. It’s all good.

This is the question that everybody wants answered: When are you going to have me back as a guest host on Garage Logic?

Good idea. The funny thing about radio is ... out of sight out of mind. You come here every week to record your ad, but now it’s in the back of my head, “I gotta call Hinderaker to fill in for Joe when he’s gone.” You just put yourself on that list, pal: Hinderaker in for Joe very soon. ★



OFF THE RAILS

HOW THE MET COUNCIL MISPLANS THE TWIN CITIES

Relying on fads,
pseudoscientific planning
and an enormous budget,
the Council has actually
increased the cost of housing
and created even greater
traffic congestion.

by Randal O'Toole

For the same cost as the North Star trains, the Met Council could have given every daily round-trip commuter-train rider a brand-new Toyota Prius every single year for 30 years.

Jane Jacobs could have predicted that the Metropolitan Council's planning of the Twin Cities region would fail. Her 1961 book, *The Death and Life of Great American Cities*, defined a "region" as "an area safely larger than the last one to whose problems we found no solution." Jacobs considered city planning a "pseudoscience" because planners didn't understand how cities work. Rather than admit their ignorance, they take their ignorance about individual cities to a whole new level by trying to plan the regions around those cities.

Jacobs's skeptical view of regional planning has been



The word "light" in light rail doesn't refer to weight: light-rail cars actually weigh more than heavy-rail cars. Instead, it refers to capacity: light rail is, by definition, low-capacity transit.

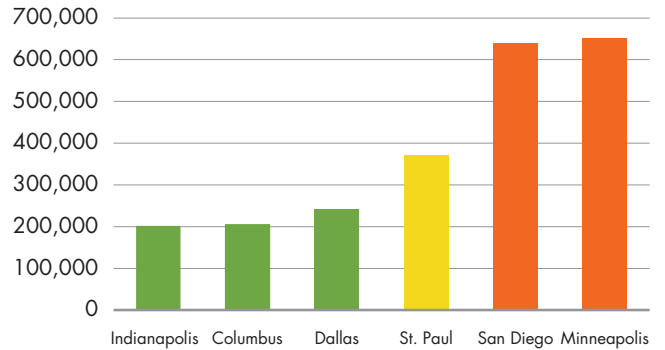
proven correct by the Met Council, which is supposed to plan transportation, water, sewer, land use, housing, and parks for 2.8 million people living on more than a thousand square miles of land. The Met Council's supposedly expert planning has produced unaffordable housing, growing traffic congestion, a misallocation of scarce resources to obsolete transportation systems, and efforts to socially engineer a massive change in lifestyles to fit planners' ideologies.

Historically, the Met Council was created by the federal government to allocate federal housing and transportation funds to various communities in the region. The state legislature greatly expanded the Met Council's work by giving it taxing authority as well as power over sewer, water, parks, and other facilities and by making it the region's transit operator.

Long-range planning for all these resources is simply more than anyone can handle. Planners can't accurately foresee the future needs and desires of millions of people or successfully prescribe the optimal land use for each of hundreds of thousands of acres of land. Therefore, Met Council planners rely, instead, on fads and pseudoscientific planning.

One of those fads is urban-service boundaries that supposedly make housing and land uses more efficient. Yet in fact,

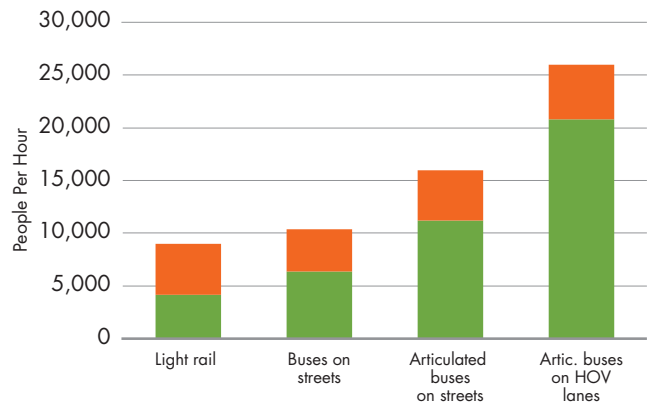
Figure 1: 2016 Price of 2,200-SF Home



Urban-service boundaries, such as those used in California and the Twin Cities, limit the supply of housing and drive up real estate prices. Not surprisingly, urban areas such as Indianapolis, Columbus, and Dallas that don't have such boundaries are growing much faster than the Twin Cities.

Source: Coldwell Banker Home Price Index

Figure 2: Transit Capacities



Buses not only can move more people per hour than light rail, a higher percentage of those people will be comfortably seated rather than standing.

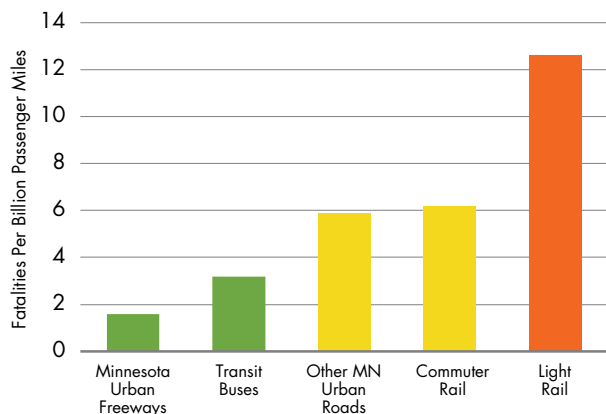
Source: Author calculations based on vehicle capacities in National Transit Database.

by limiting the land available for housing, the Met Council's service boundary makes it more expensive.

According to Coldwell Banker, a four-bedroom, two-bath, 2,200-square-foot home in Indianapolis costs about \$202,000. That same home in Minneapolis costs \$650,000, while a similar home in St. Paul is \$370,000. Prices of commercial, retail, and other forms of real estate are also relatively high and help explain why the Indianapolis urban area is growing twice as fast as the Twin Cities.

Another urban-planning fad is to deal with traffic conges-

Figure 3: Urban Transportation Fatalities



Light rail is one of the most dangerous forms of urban transport, though the danger is mainly to people off the trains. Highway numbers here are for Minnesota while transit numbers are for the nation as a whole.

Source: U.S. DOT

Figure 4: 2015 Average Bus Occupancy Rates



Many transit systems, including Eden Prairie's Southwest Transit, carry far more riders per bus than Metro Transit.

Source: National Transit Database

tion by ignoring it. Planners believe that automobiles are evil and doing things that relieve congestion simply encourages their use. Therefore, they allow congestion to grow in the hope that a few people will stop driving their own vehicles and start riding transit.

Congestion has tripled since 1982

The Met Council has certainly succeeded in increasing congestion. According to the Texas Transportation Institute's annual congestion report, the number of hours the average Twin Cities commuter wastes sitting in traffic has quadrupled since 1982, and Minneapolis-St. Paul has grown from the nation's twenty-first-worst congested region to the fourteenth worst.

More congestion, however, hasn't gotten people out of their

cars. From 1980 to 2015, the share of Twin Cities commuters who took transit to work shrank from ten percent to six percent.

The Met Council would like people to believe that light rail, another planning fad, relieves congestion. Yet in fact, it makes congestion worse, both because it occupies more space on city streets than the few cars it replaces and because it disrupts traffic signals whenever it crosses streets.

In 2015, light rail carried less than half a percent of Twin Cities commuters to work. Yet, in their infinite wisdom, Met Council planners want to give light rail priority over cars at traffic signals. The Hiawatha light-rail line never crosses Hiawatha Avenue, but it crosses streets that cross Hiawatha, and because the signals for those crossings are coordinated with the signals for Hiawatha, the light-rail line has added 20 to 40 minutes to people's travel times between Minneapolis and Bloomington.

Metro Transit's light rail is an expensive but obsolete monument to political egos. In 1910, Minneapolis and St. Paul were among the thousand American cities that had streetcars. By 1972, all but eight cities had replaced rail transit with buses that were faster, safer, more flexible, and far less expensive.

In 1973, however, Congress began providing funds for cities to build new rail transit lines. This led to the creation of a rail transit lobby consisting of railcar manufacturers and rail contractors enriching themselves by promoting yesterday's transportation for tomorrow's cities. Were it not for the attraction of "free" federal money, the Twin Cities would almost certainly have no light rail today.

Not many people realize it, but the word "light" in light rail doesn't refer to weight: light-rail cars actually weigh more than heavy-rail cars. Instead, it refers to capacity: light rail is, by definition, low-capacity transit. Although one light-rail car can hold 150 people (most of them standing), and three cars can be run together in trains, light-rail tracks can safely move only about 20 such trains per hour, meaning it has a capacity of 9,000 people per hour.

Bus route capacities can be much higher. A standard bus can hold about 60 people (most of them seated) while articulated and double-decker buses can hold more than 100. Because buses are fast and nimble, a single street can move many more buses per hour than a rail line. Portland, Oregon, has a street that supports 160 buses per hour. Istanbul has a busway that moves more than 250 buses per hour. The math: articulated or double-decker buses can easily move almost twice as many people per hour on city streets and more than three times as many people on busways as light rail.

Despite the false claim that light rail is superior to buses because it is "high-capacity transit," the Twin Cities doesn't even need high-capacity transit. In 2013, during afternoon rush hours, the Hiawatha Line carried fewer than 2,900 people per hour. Morning rush-hour ridership was even lower at under 2,200 people per hour. These numbers could easily be carried by rapid buses at a tiny fraction of the cost of rail.

True high-capacity transit is only necessary when there are

large numbers of jobs concentrated in a central location. Lower Manhattan, for example, has nearly 2 million jobs, or more than 20 percent of all jobs in the New York metropolitan area. In contrast, less than ten percent of jobs in the Twin Cities are in downtown Minneapolis. The vast majority of jobs in the region are so finely spread out that they can be served only by buses, if transit can work for them at all.

Rail advocates argue that buses can get caught in congestion. But it would be better to spend scarce resources trying to relieve congestion for everyone than to build rail-transit lines used by relatively tiny numbers of people that actually make congestion worse for everyone else.

Light rail, not fast rail

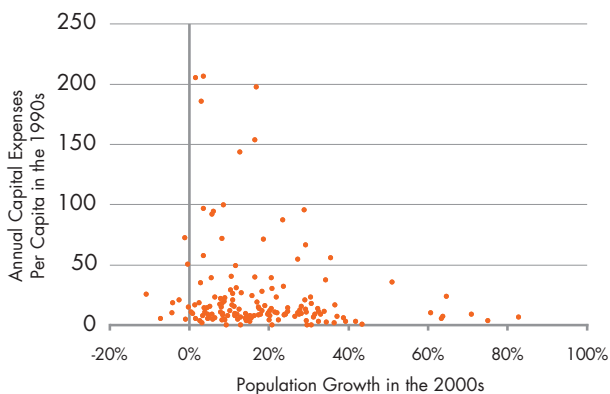
Buses are also much safer than light rail. Over the last decade, light-rail lines around the nation killed an average of 12.6 people for every billion passenger miles they carried, while buses killed just 3.2 people per billion. In the Twin Cities alone, light-rail accidents have killed 16 people.

Nor is light rail particularly fast. According to Metro Transit’s timetables, the Hiawatha Line averages 18 miles per hour, while the Green Line averages just 14. Buses that stopped at the same places as the light-rail trains could easily match if not exceed those speeds. Denver recently opened a bus-rapid transit line that averages 41 miles per hour, faster than almost any rail transit line in the country.

If light rail is so inferior, why have so many cities built it? The simple answer is that it costs more, and that high cost has a political value—the handing out of contracts, employment of union workers, and high public visibility at ribbon-cutting ceremonies—that ordinary buses don’t have. That political value requires the transfer of billions of dollars from taxpayers to contractors and railcar manufacturers.

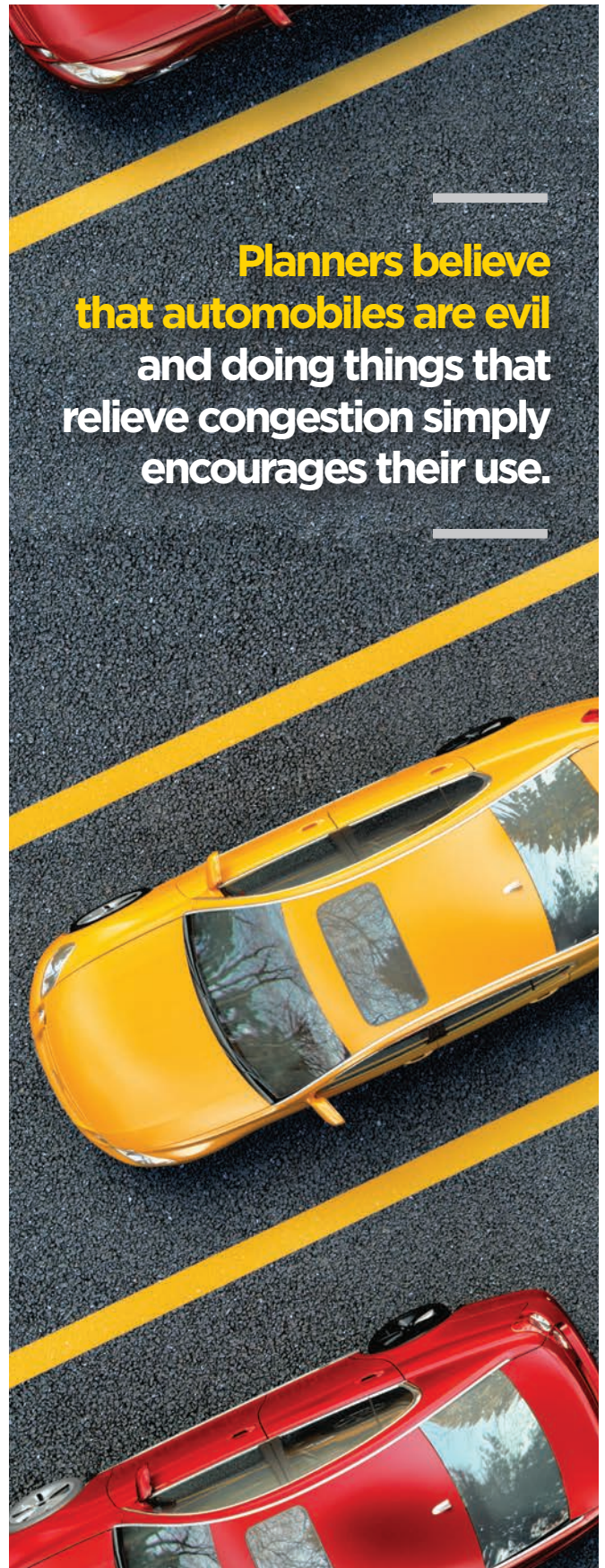
According to a 2008 Federal Transit Administration report

Figure 5: Transit Spending and Urban Growth



Urban areas that spent the most on transit capital improvements—meaning rail—in the 1990s grew slowly in the 2000s, while ones that grew fastest spent the least on transit—meaning they relied on buses.

Source: Coldwell Banker Home Price Index



comparing projected costs with actual costs of rail projects, the Hiawatha light-rail line was originally supposed to cost \$244 million. After adjusting for inflation, it actually cost \$697 million. That's a lot of profit for contractors.

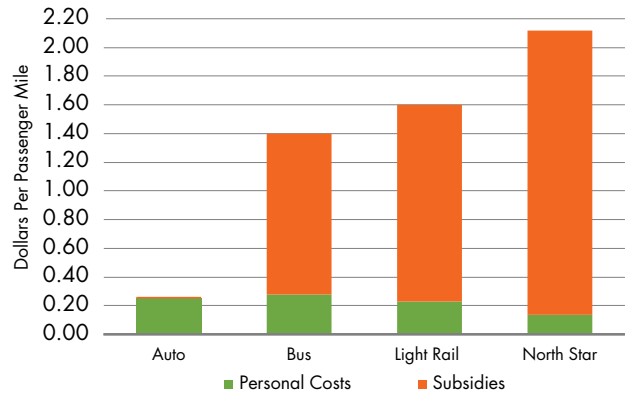
Before it was built, planners also estimated that the Hiawatha Line would cost \$12 million a year to operate. In its first year, it cost \$16 million. By 2013, the last year before the Green Line opened, operating costs had ballooned to more than \$32 million a year, plus another \$5 million for maintenance. That's a lot of union jobs.

Metro Transit spends more per passenger mile operating buses than light rail, but that's partly because light rail has taken the premium routes once served by buses. In 2015, light rail in the



Planners estimated that the Hiawatha Line would cost \$12 million a year to operate. ... **By 2013, the last year before the Green line opened, operating costs had ballooned to more than \$32 million a year, plus another \$5 million for maintenance. That's a lot of union jobs.**

Figure 6: 2015 Twin Cities Transport Costs & Subsidies



Per passenger mile, transit fares and average auto costs are about the same, but subsidies to transit are far greater than highway subsidies.

Source: Coldwell Banker Home Price Index

Twin Cities carried an average of 19 people per car, while buses carried just 10.5 people. Many other transit systems have much higher occupancies, starting with Eden Prairie's own Southwest Transit. If Metro Transit were to spend more effort increasing bus occupancy rates rather than building expensive but obsolete rail lines, it could carry more people at far less cost.

The North Star commuter train is even more wasteful than light rail. In 2015, it carried an average of just 1,274 round-trips per weekday, collecting fares averaging less than \$3.50 per trip. Operations and maintenance costs alone amounted to more than \$27.50 per trip, and if capital costs were amortized over 30 years at three percent interest and added to the total, the subsidy per trip would be nearly \$50.

For the same cost as the North Star trains, the Met Council could have given every daily round-trip commuter-train rider a brand-new Toyota Prius every single year for those 30 years. More practically, North Star service could be provided by 16 buses costing about \$12 million initially compared with \$350 million for the trains. The buses would be faster than the trains and would also cost significantly less to operate.

In 2015, all of the region's transit put together carried a bit more than one percent as many passenger miles of travel each year as the region's automobiles. Yet the Met Council's 2040 transportation plan proposes to spend three times as many dollars on transit capital improvements as on highway improvements. This may partly be because the Met Council has a conflict of interest: Not only is it the region's transportation planner, it is also the region's transit operator; therefore, it gets to include transit dollars but not highway dollars in its budget.

Rather than design a transportation system that works for the Twin Cities, the Met Council's goal is to reshape the Twin Cities to support the system it is building. That means increasing population densities in transit corridors by building four- and five-story housing complexes known as *transit-oriented developments*, which is another urban-planning fad. Many of these are mixed-

use, meaning they have retail on the ground floor and residences above so that people can walk to shops instead of drive and then take light rail or commuter rail to work.

Most Americans don't really want to live that way. Therefore, to entice developers to build such projects, the Met Council has encouraged cities to offer tax-increment financing and other subsidies to transit-oriented developments. In fact, it has provided cities with a nine-page list of possible subsidies. Yet, far from promoting economic development, rail transit and tax-increment financing at best merely influence where development will take place and at worst actually slow growth because of increased tax burdens.

Changed travel habits?

Of course, there's little evidence that people who live in supposedly transit-oriented developments significantly change their travel habits. While people who prefer to take transit rather than drive are attracted to such developments, that doesn't mean that families priced out of single-family homes will suddenly stop driving if the only place they can afford to live is in a subsidized transit development. In fact, studies of travel choices by people living in transit-oriented developments in Portland, Oregon, have found they are no more likely to take transit than anyone else in the region.

Although the Met Council supposedly looks 25 years into the future, so far its plans have ignored the next transportation revolution: the autonomous or self-driving car. Autonomous cars will have at least as big an impact on cities and their residents in the next century as Henry Ford's mass-produced cars had in the last century.

For example, autonomous cars will change the way we view the time spent traveling because people will be able to work, read, or watch entertainment instead of the road while commuting. People who work in the Twin Cities will be as likely to live in Eau Claire, Mankato, Rochester, or St. Cloud as in Eden Prairie or Maple Grove.

Apple, Ford, Google, Nissan, Uber, Volkswagen, and many other companies are developing autonomous cars. Last year, Ford CEO Mark Fields promised that his company would have fleets of fully autonomous cars—cars with no steering wheels or control pedals—on the streets of American cities in a ride-sharing service by 2021. Since automobiles are far more efficient than transit, such cars will take people door-to-door at prices competitive with transit fares, thus rendering transit completely obsolete and thus saving taxpayers the huge subsidies now paid to run transit lines.

Even if Ford is a year or two late on its promise, it makes no sense for the Twin Cities to spend billions on the Southwest light rail and other expensive transit projects when autonomous cars will soon take away most of their riders. Nor does it make sense for the region to subsidize high-density developments when people seeking affordable housing can simply escape outside of the region of the Met Council's influence.

In failing to foresee autonomous cars, Met Council planners have given up all credibility for their work. Rather than plan

ABOUT THE AUTHOR

Randal O'Toole is a Cato Institute Senior Fellow working on urban growth, public land, and transportation issues. O'Toole's research on national forest management, culminating in his 1988 book, *Reforming the Forest Service*, has had a major influence on Forest Service policy and on-the-ground management. His analysis of urban land-use and transportation issues, brought together in his 2001 book, *The Vanishing Automobile and Other Urban Myths*, has influenced decisions in cities across the country. In his book *The Best-Laid Plans*, O'Toole calls for repealing federal, state, and local planning laws and proposes reforms that can help solve social and environmental problems without heavy-handed government regulation. O'Toole's latest book is *American Nightmare: How Government Undermines the Dream of Homeownership*. O'Toole is the author of numerous Cato papers. He has also written for *Regulation* magazine as well as op-eds and articles for numerous other national journals and newspapers.

O'Toole travels extensively and has spoken about free-market environmental issues in dozens of cities. An Oregon native, O'Toole was educated in forestry at Oregon State University and in economics at the University of Oregon.



for the future, they are planning for the past. Few Americans want to live in this past, because it would mean higher housing costs, higher transportation costs, and more inequality as only the affluent have mobility and spacious private homes. Paying for this vision of the past also means higher taxes and slower economic growth.

The legislature should strip the Met Council of much of its power and end its conflict of interest by splitting Metro Transit into a separate entity. Land-use planning should be returned to local municipalities. In fulfilling its federal obligations, the council should cost-effectively provide transportation facilities that people will use and pay for out of user fees, not heavily subsidize facilities it thinks people should use. These changes will help make the Twin Cities more competitive and better able to respond to new technologies and tastes. ★

Interview

DISINHERITED

Acclaimed author **Diana Furchtgott-Roth** explains how liberal policies betray America's young

Community Chest

DO NOT PASS GO.
WORK PART-TIME FOR
MINIMUM WAGE AND
PAY SCHOOL LOAN
OF \$???,???



OF \$15

RECTLY
JAIL

Q. You have said that dissatisfaction over the government's systematic bias against young people might constitute one reason behind Donald Trump's victory. How so?

A. People just aren't happy with the way the economy is going. The condition of young Americans is one component of it—something that made Donald Trump the winner in the election. Children are not making the progress that their parents made at the same age. They can't get jobs, they don't have the resources to buy houses, and some of them are burdened with undue amounts of debt. People wanted something better for their children and grandchildren.

Younger people are having trouble finding jobs, then dropping out of the labor force, leading to delayed life milestones. It's eight years into the economic recovery, and the unemployment rate for young people aged 20 to 24 is twice the rate of the unemployment rate for people 25 years and older. The teenage unemployment rate is 15 percent. The rate for African-Americans is 27 percent. The share of teens and young people who are employed or looking for work, known as the labor participation rate, is at the lowest level since the government began keeping records in 1948. The share of young people living with their parents from 1968 to 2007 was around 32 percent. Now it's well over half—it's about 56 percent, an historic high.

It doesn't have to be that way. With a few changes, these young people could all move out of their parents' basements into homes of their own; they could get summer jobs, then get other jobs; they could graduate without debt and have great careers.

Your book lays a lot of responsibility for this on the American system of education. Why?

We all know how a school experience is improved with good teachers. We all know that unqualified teachers don't get fired, and kids receive a worse education.

The question is, why can't unqualified teachers get fired? In New York City and Chicago, barely one in a thousand teachers is fired for poor performance. In Los Angeles, fewer than two percent of teachers are denied tenure. Only a quarter of a percent of teachers who had tenure—that's one out of every 400—were actually fired.

We must give parents more school choice so that bad schools that hire bad teachers go out of business. If a restaurant prepares bad food, it's gradually going to go out of business. It should be that way with schools. If parents find that their kids are in bad schools, they should be able to move their kids to another school.

We hope that Secretary of Education Betsy DeVos is going to allow more school choice by expanding the possibilities, not just for charter schools but among existing public schools, too. The public favors charter schools two to one. African-Americans favor charter schools by three to one. When New York City Mayor Bill de Blasio closed Harlem's Success Academies—charter schools in New York City--there were protests from African-American parents. Governor Andrew Cuomo had to overrule de Blasio and allow those schools to stay open. They are still open today.

How do policy-makers address this? It seems like the solution is less of a policy discussion than a strategy to deal with powerful and hardnosed union interests.

Nearly 70 percent of college graduates last year needed loans. Young people today are graduating from college with an average of \$30,000 in debt and few opportunities to pay it off, because economic growth hasn't been much above two percent. The number of student-loan borrowers who owe between \$50,000

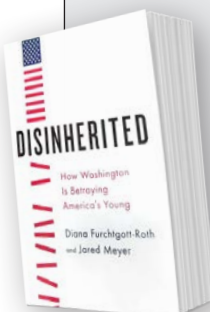
and \$75,000 has doubled since 2004. The number who owe more than \$200,000 has tripled. Overall student loan debt has increased by 325 percent, whereas other categories of non-housing debt have decreased by five percent.

Most people think it is natural to need loans to go to college. They don't see that the federal government policies are forcing this on them. The federal government took over the student-loan portfolio in 2010 to help pay for the Affordable Care Act. When the federal government lends money for kids to go to school, no one really looks into who it goes to. The government just automatically gives it out. This means colleges can raise tuition, and kids just



Diana Furchtgott-Roth

is a senior fellow at the Manhattan Institute, director of the Economics21 program, and a columnist for MarketWatch.com. She has deep experience as a senior economic advisor to president's Ronald Reagan, George H.W. Bush and George W. Bush. In addition, Furchtgott-Roth served on the transition team for President Donald J. Trump.



She is coauthor, with Jared Meyer, of *Disinherited: How Washington Is Betraying America's Young* (2015).



get student loans—and bigger loans. The schools see that the federal government is going to continue to raise the amount given out in loans, so they just raise tuition some more.

That might be fine for the federal government; it might be fine for the school. It's not fine for parents and students, because they have to pay it off after graduation. That is not fair. It's another example of how policy is biased in favor of entrenched interests—in this case, the universities and the federal government—and against young people. Paying off a \$30,000 student loan can be pretty tough. If you're an engineer or financier, you can go right into a job with maybe one of these Wall Street banks. It does not seem so difficult. If you're just a normal person, and you graduate with maybe a degree in biology or English literature, and you have a hard time landing your first job, \$30,000 is overwhelming.

We must detach the student loan function from the federal government. The federal government does not oversee auto loans, and you find it's not difficult to get an auto loan. The number of automobile loans has not increased as much as student loan debt.

Private lending institutions would not automatically give out the amounts that the federal government is giving out. The banker might say, "What kind of grades did you get in high school?" If you were a C student, and you wanted to major in something like women's studies, they might say, "This is not such a good idea. You're not going to be able to get a job to pay off our loan," because of course, private institutions are interested in

getting back their loans. They're going to make sure that you take a course of study that's going to enable you to pay off the loan—and also make sure you enroll in an institution where tuition is not overwhelming.

American Experiment is launching a major effort to study the underutilized benefits of post-secondary education beyond the four-year degree. What is your view of the value of those opportunities?

A good education does not have to involve an expensive four-year college. There are great community colleges where people can focus on getting high-return degrees in one of the health care professions, such as occupational therapy, physical therapy, computer programming, or computer coding. Graduates can go out to work, getting a job earning \$45,000 a year on average from one of these high-return professions; or they can transfer to a four-year institution, getting a liberal arts degree at about half the price. Community college on average is just \$3,000 a year. Guidance counselors should be steering people more towards these opportunities. Not all young people should be going to a four-year college, especially if they might not graduate.

There are also people who incur debt and then don't graduate. Unfortunately, the debt is not waived when you drop out. The U.S. Treasury Department has concluded that for every dollar provided in tax-based aid, scholarships fell a dollar. The New York Federal Reserve concluded that 65 percent of the increase in subsidized loans was passed on through increased tuition. This is just another example of where entrenched interests win. Young people lose.

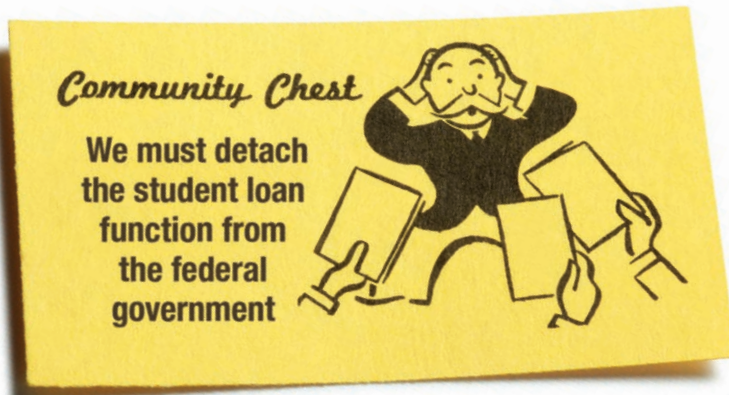
Okay, they are through college—or not—and entering the job market. How does the bias continue?

Let's look at entering the job market. The way the minimum wage is going up, it makes it difficult for any teen to get into the job market. Advocates for the Fight for Fifteen—the \$15-an-hour minimum wage—say it doesn't hurt that many people. Yet the people it does hurt are teens and low-skilled workers. It makes it difficult to get a first job.

Many states have raised their minimum wages. There's a federal teen exemption of \$4.25. Thus, according to federal law, an employer can hire a teen for \$4.25 an hour, but many states have not adopted the teen exemption. This discriminates against younger people, because if employers have to pay \$15 an hour, they're going to hire a different person than they would at \$4.25 an hour.

Another thing the Labor Department did during the Obama Era—something I hope is going to be rolled back when Alexander Acosta is confirmed as labor secretary—is make rules against unpaid internships in for-profit companies. Funnily enough, you can have an unpaid internship on Capitol Hill. You can have one at the White House. You can have one at the AFL-CIO. You can have one at the Manhattan Institute. Yet if CBS News or Fox News or Bank of American wants to offer an unpaid internship, the Labor Department regulations make it so difficult that these unpaid internships have disappeared.

All these rules have been passed with the intention of being kind. They don't want young people exploited. In practice, it doesn't work that way. You can't force an employer to pay someone more than they're worth. We actually called Capitol Hill, and we said, "Why don't you pay



your interns?" Some of the congressmen who favor raising the minimum wage don't pay their interns. Their interns get zero. They replied, "Well, we couldn't offer as many internships if we had to pay." That's the same as in the private sector. Again, it's something that benefits all the people and yet cuts out younger people from the labor market.



penalties were being waived, insurance companies could start designing simple policies where you're covered if you get cancer or have a heart attack or if you fall off your bike in traffic. That will be a simpler, much lower-cost policy. That would be a policy that people would want to buy rather than be forced to buy.

You also talk about how licensing requirements sometimes impose an impediment to getting a job. ...

Licensing requirements are state policy, which means they must be changed on the state level. One-third of occupations require a government license or certification, and nearly 40 percent of workers need some kind of government permission in order to work. Some certifications are important. You don't want an unlicensed brain surgeon, nurse, or emergency medical technician. Some people wouldn't even want an unlicensed lawyer, although I don't really see the difference between a licensed and unlicensed lawyer. Yet what about licensing interior designers? You cannot die from the mismatched couch. Or tree trimmers? You cannot see, in the states where tree trimmers are licensed, that those trees are trimmed any better than the trees in the states without licensing.

These rules are put in place by entrenched interests. The interior design companies don't want you starting your own interior design firm. Many people could go around to the neighbors and give them advice on what couches, rugs, and drapes. It's very easy to get into because it doesn't need a lot of startup capital. You don't even have to own your own car to start your own interior design company. This is purely a matter of all the entrenched interests trying to keep out the competition.

Where does the cost of health care fit into this equation?

It used to be that premiums for people like me were five times as much as for young people. Now,

it's three to one. It's not that young people have suddenly gotten healthier or that I have suddenly gotten healthier. The Affordable Care Act mandated this difference in premiums—that you couldn't charge old people like me more than three times as much as young people. Again, it is unfair, because it's not that my premiums went down. It's that the premiums for young people went up.

That's not right, especially since higher premiums have resulted in some young people choosing to go uninsured. Health insurance should be something that people want. There should be low-priced options as well as high-priced options so people can pick what they want to do—just the same way as with auto insurance. Other kinds of insurance markets work just fine without government intervention. Health insurance will also.

We have to hope that this whole system is going to be dismantled under President Trump. It's already starting. The Internal Revenue Service announced that it was going to accept income tax returns that did not have proof of insurance on them. If they accept returns without this information, then they don't know who has health insurance and who hasn't, so they cannot levy the fine. That's step one to dismantling it.

Step two is that they're going to waive any penalties caused by the Affordable Care Act in terms of health insurance policies. That means health insurance companies can start to design policies that are not Obamacare compliant. Then you could buy a basic policy. Right now, even if you don't have any children, you have to buy a policy that includes maternity care, pediatric dental care, mental health coverage, and drug abuse coverage. If

What's the bottom line message of your book?

The message is that a country that betrays its youth is not going to survive. We have seen cases in Europe where unemployment rates are about 40 percent. This is not does not work economically or socially. The government must cease its betrayal of youth and figure out exactly how its policies can be more oriented towards young people. Congress should vote on every dollar spent in every year, rather than have these entitlements grow on automatic pilot. They must adjust Social Security and Medicare policies to keep them in balance as people live longer. Pensions should be transformed from defined-benefit to defined-contribution to bring them more actuarially into balance.

Washington has consciously made decisions that disadvantage young people and advantage old people like me. Just getting the unemployment rate of young Americans down would be very beneficial in terms of their future progress. There is a lot, especially with the election of Donald Trump—I'm not ashamed to say that. I want that it be on the record—that young people have a lot to be happy about.

We have to keep the pressure on the new administration and on Congress. We must roll back the Affordable Care Act. We need to have more choice in schools. We must make sure the federal government does not pass an increase in the minimum wage. On the state level, we must roll back some of these occupational licensing requirements. We should make it easy for people to get a good education and get into the workforce. We shouldn't burden them with unnecessary taxes for programs that are not going to be there when they retire. ★



NO THUG LEFT BEHIND

Obsessed with 'racial equality,' St. Paul Schools abandoned discipline—and unleashed mayhem

By Katherine Kerstein

In the Obama years, America's public education system embarked on a vast social experiment that threatened to turn schools into educational free-fire zones. The campaign—carried out in the name of “racial equity”—sought to reduce dramatically the suspension rate of black students, who get referred for discipline at much higher rates than other students. From the top down, the U.S. Department of Education drove the effort; from the bottom up, local educational bureaucrats have supported and implemented it.

“Racial equity” has become the all-purpose justification for dubious educational policies. Equity proponents view “disparate impact”—when the same policies yield different

outcomes among demographic groups—as conclusive proof of discrimination. On the education front, “equity” does not seek equal treatment for all students. Instead, it demands statistical equivalence in discipline referrals and suspensions for students of every racial group, regardless of those students' actual conduct.

Equity advocates' central premise is that teachers, not students, are to blame for the racial-equity discipline gap. They claim that teachers' biases, cultural ignorance, or insensitivity are the gap's primary causes. The key to eliminating disparities, they maintain, is to change not students' but adults' behavior. Equity supporters justify their agenda on grounds that the racial-equity discipline gap severely hampers black students' chances of success in life. Kids who get suspended generally fail to graduate on time and are more likely to get caught up in the juvenile-justice system, they say.

President Obama's Department of Education made racial equity in school discipline one of its top priorities. “The undeniable truth is that every day educational experience for many students of color violates the principle of equity at the heart of the American promise,” according to Arne Duncan, who served as education secretary until early 2016. “It is adult behavior that must change,” Duncan stated repeatedly. “The school-to-prison pipeline must be challenged every day.”

Donald Trump's Department of Education won't have to wait to see how this project has played out in the real world. The public schools of St. Paul, Minnesota, are ahead of the curve in the racial-equity crusade. The violence and

chaos that racial-equity policies have produced there should sound alarms across the nation about what can be expected by pursuing this course.

Valeria Silva, who became superintendent of the St. Paul Public Schools in December 2009, was an early and impassioned proponent of racial-equity ideology. In 2011, she made the



“Racial equity” has become the all-purpose justification for dubious educational policies.

equity agenda a centerpiece of her Strong Schools, Strong Communities initiative. The district's website lauded the program as “the most revolutionary change in achievement, alignment, and sustainability within SPPS in the last 40 years.”

Demographically, the St. Paul



Katherine Kersten, a senior fellow at Center of the American Experiment, first wrote about the St. Paul schools' discipline issues in the Spring 2016 issue of Thinking Minnesota. This update first appeared in City Journal, a quarterly magazine published by the Manhattan Institute. It is used with permission.

schools are about 32 percent Asian, 30 percent black, 22 percent white, 14 percent Hispanic, and 2 percent Native American. In 2009–10, 15 percent of the district’s black students were suspended at least once—five times more than white students and about 15 times more than Asian students. In Silva’s view, equity required that the black student population be excluded from school at no more than twice the rate of Asian-Americans, the group with the lowest rate of suspensions.

Silva attacked the racial-equity discipline gap at its alleged root: “white privilege.” Teachers unfairly punish minority students for “largely subjective” behaviors, such as “defiance, disrespect and disruption,” she told the *Minneapolis Star Tribune* in 2012. To overcome their biases, teachers must learn “a true appreciation” of their students’ cultural “differences” and how these can “impact interactions in the classroom,” she said.

Silva hired a California-based diversity consultant, the Pacific Educational Group (PEG), to compel St. Paul school staff—from principals to janitors to bus drivers—to confront their own bigotry and to achieve “cultural competence” in working with “black and brown” students. In PEG-inspired “courageous conversations” about race, teachers were instructed to begin every statement with a phrase like “as a white woman, I believe,” or “as a black man, I think.” They learned that “shouting out” answers in class and lack of punctuality are black cultural traits and that what may seem to be defiant student behavior is, in fact, just a culturally conditioned expression of “enthusiasm.”

After implementing “white privilege” training, Silva moved to eliminate what she called the “punishment mentality” undergirding the district’s discipline model. In an effort to cut black discipline referrals, she lowered behavior expectations and dropped meaningful penalties for student misconduct. In 2012, the district removed “continual willful disobedience” as a suspendable offense. In addition, to close the “school-to-prison pipeline,” Silva adopted a new protocol on interactions between schools and the police. The protocol



PEG-trained “cultural specialists” reinforced the administration’s “blame the-teacher” approach. They advised that if kids cussed teachers out, those teachers should investigate how their own inability to earn students’ trust had triggered the misconduct.

ranked student offenses on five levels and required schools to report only the worst—including arson, aggravated assault, and firearm possession—to police. School officials were strongly encouraged to handle other serious offenses—such as assault, sexual violence, and drug possession—on their own. For a time, the district administration actually tied principals’ bonuses to their track record on reducing black discipline referrals.

In 2011–12, disorderly conduct charges for district students dropped 38 percent from the previous school year. School-based offenses referred to the Ramsey County attorney’s office for charges also plunged. In 2006, school officials made 875 referrals for misdemeanor and felony offenses. In 2011, they made 538.

Silva also championed “Positive Behavior Interventions and Supports” (PBIS), an anti-suspension behavior-modification program that focuses on talking and mediation. Under PBIS, unruly students met for about ten minutes with a “behavior specialist” before returning to class or moving to another classroom or school, where they were likely to misbehave again. The “overwhelming majority” of behavior specialists are black, and “it’s not clear to me what their qualifications are,” wrote Aaron Benner—a former fourth-

grade teacher who is black himself—in the *St. Paul Pioneer Press* in 2015. Some specialists “even reward disruptive students by taking them to the gym to play basketball,” he added. “There is no limit to the number of times a disruptive student will be returned to your class.”

PEG-trained “cultural specialists” reinforced the administration’s “blame-the-teacher” approach. They advised that if kids cussed teachers out, those teachers should investigate how their own inability to earn students’ trust had triggered the misconduct. The end result of a discipline infraction “should be more than just kids apologizing,” Kristy Pierce, a cultural specialist at Battle Creek Middle School told *City Pages*, which ran a series of articles on the mounting chaos in the St. Paul schools. “When you use the word ‘black’ versus ‘African American’ and the student flips out, understand where that might be coming from.”

In 2013, Silva made a final policy change. In the name of equity, she sent thousands of special-education students with “emotional and behavioral disorders”—disproportionately black—into mainstream classrooms. Teachers received no extra support to deal with this unprecedented challenge.

“We have a segment of kids who consider themselves untouchable,” said one veteran teacher as the 2015–16 school year began. At the city’s high

schools, teachers stood by helplessly as rowdy packs of kids—who came to school for free breakfast, lunch, and WiFi—rampaged through the hallways. “Classroom invasions” by students settling private quarrels or taking revenge for drug deals gone bad became routine. “Students who tire of lectures simply stand up and leave,” reported *City Pages*. “They hammer into rooms where they don’t belong, inflicting mischief and malice on their peers.” The first few months of the school year witnessed riots or brawls at Como Park, Central, Humboldt, and Harding High Schools—including six fights in three days at Como Park. Police had to use chemical irritants to disperse battling students.

Escalating Violence

“We are seeing more violence and more serious violence,” warned Steve Linders, a St. Paul police spokesman. “Fights at schools that might have been between two individuals are growing into fights between several individuals or even melees involving up to 50 people.” In September, a massive brawl erupted at Como Park High School. Police had to call for backup, as “the scene became very chaotic with many people fighting,” Linders said. “These are not . . . a couple of individuals squaring off with the intent of solving their private dispute,” teacher Roy Magnuson told the *Pioneer Press*. “These are kids trying to outnumber and attack.” In October 2015, 30 to 40 students clashed in a stairwell at Humboldt High School. Police tried to break up the brawl, as staff strained to hold a door closed to prevent dozens of students from forcing their way through to join the fight.

To cut black discipline referrals, Silva lowered behavior expectations and dropped serious penalties for misconduct.

As the school year progressed, some high schools increasingly came to resemble war zones. Teachers suffered injuries while resisting classroom invasions or intervening in fights; police were compelled to Taser a disruptive student; and one teen brought a loaded gun to school, saying that he needed it to defend himself against rival gang members. At Harding High School,

teacher Becky McQueen found her own solution to the chaos. McQueen—who had been threatened with death and shoved into a shelf by classroom interlopers—told *City Pages* that, to keep invaders out, she now asks her students to use a “secret knock” to enter her classroom.

Silva’s administration put the blame for the escalating mayhem squarely on adults. Jackie Turner, the district’s chief engagement officer, said that in response to the violence, the district would consider more training for staff and school resource officers on “how to appropriately de-escalate situations.” Fights might not have escalated, she said, “if some of the adults would have reacted differently.” Asked if students should be expelled for fighting, Turner replied: “You’re not going to hear that from me, you’re not going to hear that from the superintendent, you’re not going to hear that from any of the administrators.”

Meanwhile, at many elementary schools, anarchy reigned. Students routinely spewed obscenities, pummeled classmates, and raced screaming through the halls, Benner wrote in his 2015 *Pioneer Press* article. Elementary school teachers, like their high school counterparts, risked physical danger. Teacher Donna Wu was caught in a fight between two fifth-grade girls and knocked to the ground with a concussion. “I’ve been punched and kicked and spit on” and called “every cuss word you could possibly think of,” fourth-grade aide Sean Kelly told *City Pages*.

Parent Daeona Griffin told *City Pages* that a visit to her second-grader’s classroom at Battle Creek Elementary School had left her speechless:

My second-grader’s class is the most dysfunctional classroom I have ever witnessed with my own two eyes. I have never even heard of classrooms like Ms. [Tina] Woods’. She has maybe six extreme behavior students in one class. I’ve seen them punch her. I’ve seen them walk around the halls. I’ve seen her try to read to the class, and it took her an hour and a half to read two pages. It’s too much.

David McGill, a science teacher at Capitol Hill Gifted and Talented Magnet School, told the St. Paul school board that a black fourth-grade bully had “significantly compromised an entire year of science instruction” for his fellow students. Teachers and administrators had avoided disciplining him because of the new equity policy, McGill said. Worst of all, some teachers pointed out, the policy removed teachers’ power to require offending students to apologize or to clean up the messes they made. As a result, teachers lamented, these children never had the opportunity to improve self-control and learn from their mistakes. As the first semester came to an end, teachers were in crisis over the challenges they faced. “Many of us . . . often go home in tears,” one told *Pioneer Press* columnist Ruben Rosario. “Please, don’t give us more staff development on racism or . . . how to de-escalate a student altercation. . . . We teachers feel as if we are drowning.”

December 4, 2015, marked a turning point. That day, at Central High School, a 16-year-old student body-slammed and choked a teacher, John Ekblad, who was attempting to defuse a cafeteria fight. Ekblad was hospitalized with a traumatic brain injury. In the same fracas, an assistant principal was punched repeatedly in the chest and left with a grapefruit-size bruise on his neck. At a press conference the next day, Ramsey County Attorney John Choi branded rising student-on-staff violence “a public health crisis.” Assaults on St. Paul school staff reported to his office tripled in 2015, compared with 2014, and were up 36 percent over the previous four-year average. Attacks on teachers continued unabated in the months that followed. In March, for example, a Como Park High teacher was assaulted during a classroom invasion over a drug deal, suffered a concussion, and required staples to close a head wound.

Low Expectations

In 2014, Benner—a leader among teachers critical of the racial-equity policies—spoke forthrightly to the St. Paul school board. “I believe we are

crippling our black children by not holding them to the same expectations as other students,” he told its members. St. Paul students, Benner wrote the following year, “are being used in some sort of social experiment where they are not being held accountable for their behavior.” Safety, not teaching, had become his “number one concern,” he said.

“There are those that believe that by suspending kids we are building a pipeline to prison,” said Harding High’s McQueen. “I think that by not [suspending], we are. I think we’re telling these kids, you don’t have to be on time for anything, we’re just going to talk to you. You can assault somebody, and we’re gonna let you come back here.” District leaders, however, adamantly denied the charge that escalating violence and disorder were connected with recent disciplinary changes. The district took steps to mask the extent of the mayhem and to intimidate and silence teachers who criticized Silva’s policies.

Teachers reported, for example, that administrators often failed to follow up when students were referred for discipline. Benner says that this is a common tactic to keep referral and suspension numbers low. Likewise, parents faulted school officials for failing to report dangerous student-on-student violence to police. One mother told the *Pioneer Press* that her seventh-grade son was viciously kicked in the groin. “When I asked the principal why she had not contacted police, she told me, ‘That’s your job.’” Another mother told the paper that her son had been cut with an X-ACTO knife at school. When she asked why police had not been told, an administrator drew a map to the nearest station on the back of a business card, she said. After the mother contacted the police, the first assailant was charged with misdemeanor assault and the second with a felony.

Teachers who publicly questioned the new discipline policy risked serious repercussions. “There is an intense digging in of heels to say there is no mistake,” said Roy Magnuson, a social studies teacher who leads the political arm of the St. Paul teachers’ union.

The common response, he said, is “that people like me have issues with racial equity, and that is the reason we are challenging them. That makes for a very convenient way of barring the reality of the situation.”

Sometimes, the penalty for dissent went well beyond race-shaming. Benner says that district leaders pushed him out of his school and fired his aide. He now works at a private school. Candice Egan, a 63-year-old substitute teacher, has also accused the district of retaliation. After a student shoved her and pinned her to a wall in March 2016, she went to urgent care with shoulder and neck pain. Egan reported the assault to police after school authorities failed to do so—though the district’s handbook required them to do so. She also spoke to a reporter. Shortly afterward, she was informed that she could not work in the district again. Egan told the *Star Tribune* that Teachers on Call, which arranges her subbing engagements, had told her that district officials wanted “distance” from her “because of the way the incident was handled.”

Social-media comments can also endanger teachers’ jobs. On March 9, special-education teacher Theo Olson was placed on paid administrative leave after he, in two Facebook posts, criticized the administration’s lack of support for teachers. Olson made no mention of race. Nevertheless, Silva put him on leave after Black Lives Matter St. Paul threatened to “shut down” Como Park High School unless Olson was fired.

The district’s strong-arm tactics were highly effective. Most teachers kept their frustration and distress to themselves, fearing damaging entries in their personnel file or a retaliatory transfer. In a social-media post, one veteran teacher estimated the number of educators “squashed” at more than 100, those “scared and intimidated into silence” in the thousands, and the number of “parents ignored” as “too many to count.”

Suspensions Rise

As 2015 drew to a close, violence and anarchy had increased so dramatically that suspensions—though a last resort—

finally began to rise. In December, Silva announced that first-quarter suspensions were the highest in five years. Seventy-seven percent involved black students, who make up 30 percent of the district’s student population. As public outrage mounted, families of all races began flooding out of the St. Paul district to charters and suburban schools. Many families are saying that “their children . . . don’t feel safe even going to the bathroom,” Joe Nathan of the St.



“I’ve been punched and kicked and spit on” and called “every cuss word you could possibly think of,” fourth-grade aide Sean Kelly told City Pages .

Paul-based Center for School Change told the *Star Tribune* in 2016. Parents were also troubled by district students’ declining reading and math scores. The district lost thousands of students, adding up to millions of dollars in lost state aid.

Asians, the St. Paul district’s largest minority, especially resented the new discipline regime. These students—primarily of Hmong and other Southeast Asian backgrounds—tend to be well-behaved and respectful of authority, though many struggle academically. Harding High School teacher Koua Yang said that he had lost about 20 Hmong students to the exodus. “All we hear is the academic disparity between the whites and the blacks,” he complained. “This racial equity policy, it’s not

equitable to all races Why do we have to leave?”

In November 2015, St. Paul voters vented their frustration with Silva’s policies in a dramatic way. They overwhelmingly elected a new school board with a strong anti-Silva majority. Caucus for Change, a teachers’-union-organized group, engineered the victory.

A few weeks after the election, however, the new board faced its first crisis. The vicious assault on Ekblad occurred on December 4, and union leadership—calling the attack a “breaking point”—threatened to strike over school safety issues. In March 2016, the board averted a strike by approving a new teachers’ contract. The contract gave teachers what could be called hazard pay—the highest in the state, according to the *Star Tribune*. Still, St. Paul citizens’ confidence in Silva had evaporated. Teachers launched a petition demanding her resignation, and black, white, and Asian community leaders echoed that call in an op-ed in the *Pioneer Press*. At last, on June 21, 2016, the school board announced Silva’s departure after buying out her contract at a cost of almost \$800,000.

In its new contract, the union also won funding for 30 new school counselors, nurses, social workers, and psychologists. Yet unless district leaders resolve to adopt and enforce high standards of student conduct, a significant long-term improvement in school safety appears unlikely.

At the federal level, the Obama administration also made “racial equity” in school discipline a top priority. In January 2014, the Departments of Education and Justice issued a “Dear Colleague” letter, laying out guidelines intended to compel school districts to adopt Silva-style discipline policies. Currently, federal investigations are under way in districts around the country. Some districts have entered into consent decrees; the feds threatened to sue others or withhold funds if their racial numbers didn’t pass muster. Federal officials have seemed unconcerned that violence and disorder have followed implementation of racial-equity-inspired discipline policies—not only in St. Paul but also

in districts such as Oklahoma City and New York. With Donald Trump taking office in January 2017, these initiatives could be rolled back—but the incoming president has described his top priorities as immigration, health care, and jobs, and whatever changes might be in the offing will likely take time.

Unsurprising Disaster

St. Paul’s experience makes clear that discipline policies rooted in racial-equity ideology lead to disaster. This shouldn’t be surprising, considering that the ideology’s two major premises are seriously flawed. The first premise holds that disparities in school-discipline rates are a product of teachers’ racial bias; the second maintains that teachers’ unjustified and discriminatory targeting of black students gives rise to the school-to-prison pipeline.

In 2014, a groundbreaking study in the *Journal of Criminal Justice* by J. P. Wright and others discredited both these claims. The study utilized the largest sample of school-aged children in the nation. Unlike almost all previous studies, it controlled for individual differences in student behavior over time. Using this rigorous methodology, the authors concluded that teacher bias plays *no* role in the racial-equity suspension gap, which, they determined, is “completely accounted for by a measure of the prior problem behavior of the student.” Racial differentials in suspension rates, they found, appeared to be “a function of differences in problem behaviors that emerge early in life, that remain relatively stable over time, and that materialize in the classroom.”

Why do black and white students, as groups, behave differently at school? Black students, on average, “are less academically prepared for school entrance” and bring with them deficits in many social and emotional skills, the study found, over which their parents do not exert control. The authors point out that, while a number of earlier studies have suggested pervasive teacher bias as a factor in the racial-equity discipline gap, “some scholars and activists” show “clear motivations” to present the discipline gap as a civil rights issue,

“with all the corresponding threats of litigation by the federal government.”

As for the school-to-prison pipeline, the authors appear to view the concept largely as an effort to link “racial differences in suspensions to racial discrimination.” Under these circumstances, they emphasize, “where careers are advanced, where reputations are earned, and where the ‘working ideology’ of scholars is confirmed, the usual critical and cautionary sway of scholarly investigation, critique, and insight becomes marginalized or usurped.” Schools should make efforts to correct the problem behaviors of young students, the authors say. If they fail to do so, early patterns of “disruptive and unregulated behavior” can become entrenched and lead eventually to school failure, dropping out, and potentially to encounters with the justice system. In the St. Paul schools, however, equity ideology makes such constructive correction impossible.

The deepest source of the racial-equity discipline gap is profound differences in family structure. Young people who grow up without fathers are far more likely than their peers to engage in antisocial behavior, according to voluminous social-science research. Disordered family life often promotes the lack of impulse control and socialization that can lead to school misconduct. The City of St. Paul does not make out-of-wedlock birth data public. However, Intellectual Takeout, a Minnesota-based public-policy institution, has determined through a FOIA request to the Minnesota Department of Health that 87 percent of births to black, U.S.-born mothers in St. Paul occur out of wedlock, compared with 30 percent of white births. Tragically, the problem we confront is not so much a school-to-prison pipeline as a home-to-prison pipeline.

Who pays the greatest price for misguided racial-equity discipline policies? The many poor and minority students who show up at school ready to learn. The breakdown of order that such policies promote is destined to make these children’s already-uphill struggle for a decent education even more daunting. ★



ANATOMY OF A DEATH SPIRAL

BY PETER NELSON

The loss of healthy enrollment leads to such an expensive risk pool that no one can afford to buy coverage, thus killing the market.

In just three years, new insurance regulations imposed by the Affordable Care Act (ACA)—otherwise known as Obamacare—have injected a devastating amount of volatility into Minnesota’s individual health insurance market. Health plans report enrollment dropped to 190,000 people in 2017, down from 293,000 in 2014. This 35 percent drop follows from steep premium increases in the neighborhood of 30 percent for 2016 and another 55 percent for 2017.

These numbers clearly show Minnesota’s market is in a death spiral. As premiums rise, healthy people are dropping coverage and leaving sicker, more expensive people behind in the individual risk pool. The sicker pool requires even higher premiums, which then leads to another cycle of healthier people who drop coverage. Actuaries call this a death spiral because at some point the loss of healthy enrollment leads to such an expensive risk pool that no one can afford to buy any coverage at all, killing the market.

What led to the present tumult? To better understand the present problem and possible solutions it’s helpful to review the basics of insurance.

Most insurance products—auto, home, life, etc.—are bought and sold within a relatively free and competitive market. With some regulation, competitive markets deliver affordable insurance for most people.

Importantly, in a free market, insurers must charge a

premium based on the predicted risk of each customer, which works fairly well for most insurance markets, but presents serious challenges for health insurance.

If health insurance worked like auto insurance—for which premiums are adjusted from one coverage period to the next based on any new information the auto insurer gleans about a customer’s risk—then insurance premiums would likely become unaffordable to anyone in the year following an expensive health diagnosis, such as diabetes or multiple sclerosis.

To address this issue, Minnesota regulations, even before the ACA, required health insurers to guarantee renewal of coverage each year without adjusting premiums for any change in risk.

Then there is the much bemoaned problem of people with a preexisting condition who need to buy coverage. In a free market without rate regulation an insurer would either reject the applicant or need to charge a risk-adjusted premium that would likely be unaffordable to all but the very rich.

Unlike other losses people might experience—a stolen car, flooded basement, and even the death of a spouse—society has a very, very hard time saying tough luck to someone with a preexisting condition.

Prior to the ACA, states tended either to require insurers to guarantee coverage to all,



regardless of health status, or to create high risk pools that provided guaranteed coverage to people with preexisting conditions through a separate pool outside the individual market.

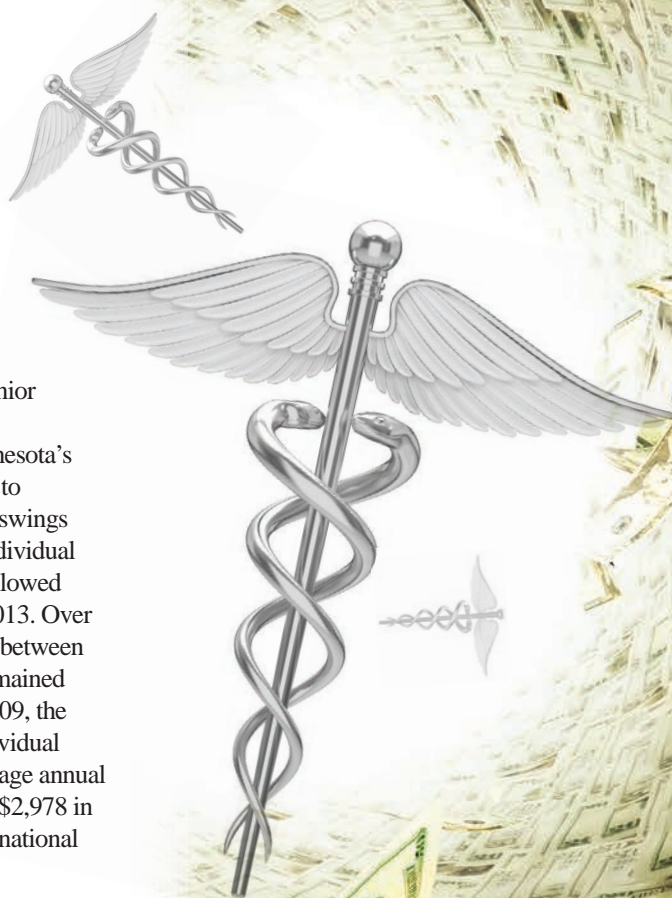
Back in 1976, Minnesota lawmakers opted for the high risk pool option and created the Minnesota Comprehensive Health Association (MCHA). Over the years MCHA was widely acknowledged as a model for how a high risk pool can successfully foster a stable individual health insurance market.

Leading up to the 2008 presidential election, the *Washington Post* reported how MCHA reflected a key component of John McCain's vision for reforming health care. The article explained, "Among the high-risk pools in 34 states, Minnesota's is the oldest, largest and, many believe, the most successful. 'It just seems to work,' said Doug Holtz-Eakin, senior policy adviser to McCain."

MCHA did seem to work. Minnesota's individual market was not subject to abnormal premium or enrollment swings in recent years. Figure 1 shows individual market premium rate increases followed group trends between 2000 and 2013. Over the same period, enrollment grew between 2002 and 2006 and, otherwise, remained consistent from year to year. In 2009, the last year AHIP surveyed state individual health insurance markets, the average annual premium for single coverage was \$2,978 in Minnesota, nearly identical to the national average of \$2,985.

Though the ACA became law in 2010, the major insurance regulations did not kick in until 2014. Since then, Minnesota's individual insurance market has been possibly the most volatile in the country.

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Minnesota entered the ACA era with the lowest rates in the nation. But, since then, rates rose in dramatic fashion. To compare states, the Kaiser Foundation identifies the premium for the second-lowest cost silver plan for a 40-year-old non-smoker in each state's largest market. In 2015, Minnesota premiums jumped 19 percent, the second largest increase next to Alaska. Premiums jumped another 29 percent in 2016, a higher jump than all but six other states. Then, in 2017, rates spiked another 55 percent. Altogether, rates rose by 138 percent over those three years.

These are just rate increases reported for the Twin Cities, which happens to be one of the lower cost regions in the state. Some Minnesotans faced triple-digit increases in 2017 alone.

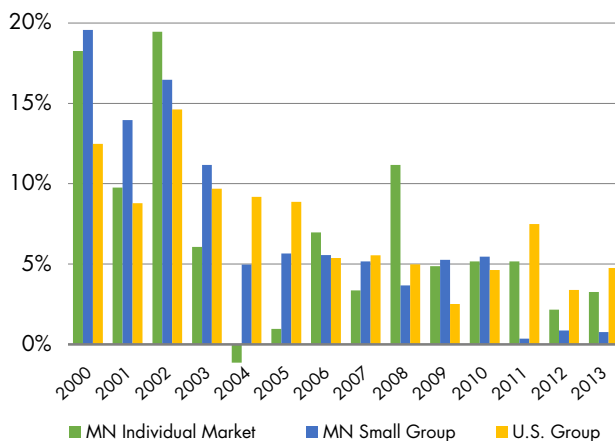
After these rate hikes, according to a federal report, average premium rates in Minnesota are now 13 percent higher than the national average for a young adult purchasing the second-lowest cost silver plan and nearly 30 percent higher for a family of four.

As rates jumped, enrollment dropped. Starting at 293,000 in 2014, Minnesota's health plans recently reported that enrollment for 2017 declined to 190,000, a 35 percent drop.

Health plan choices are also shrinking. Blue Cross Blue Shield of Minnesota exited the market. HealthPartners left 56 counties and is now only available in the Twin Cities and St. Cloud region. Medica stopped selling products outside MNsure, the state ACA insurance exchange. And every plan except Blue Plus imposed caps on enrollment. These exits reduced the number of health plans available through MNsure from 47 to 18 in 2017. Making matters worse, the health plan choices that remain are nearly all narrow network plans.

After a 55 percent premium spike and a 62 percent reduction in plan choices in just one year, the 2017 market looks nothing like it did before.

Figure 1: Average Annual Premium Increases



Note: Premiums increases for Minnesota small group market coverage is based on premiums per member month. Premium increases in U.S. group coverage is based on single coverage.

Source: Minnesota Department of Health Economics Program; The Kaiser Family Foundation and Health Research Educational Trust, Employer Health Benefits 2016 Annual Survey.

How is it that Minnesota's individual health insurance market experienced such devastation in such a short amount of time?

To begin, the ACA's new insurance regulations aimed at covering people with preexisting conditions opened up opportunities for people to game enrollment and wait until they needed care before buying coverage. The guaranteed issue requirement forced insurers to sell coverage to all comers. The community rating requirement then restricted insurers from basing premiums on health status.

With a guarantee in place, the only obstacle to people waiting to get coverage until they need care is the ACA's open enrollment period that limits enrollment to one period during the year. However, the open enrollment period isn't nearly tight enough to stop people from gaming the system. The open enrollment period ran for four and half months in 2014 and three months every year thereafter, which opened far too much time for gaming.

Also, anyone could sign up outside the open enrollment period through a special enrollment period by claiming they experienced a special life event,

like a lost job or a divorce. The trouble is, no one verified these special life events. The enrollment system depended on self-attestation.

According to proposed federal rules to stabilize the individual market, people were indeed gaming the system. They cite a study that found 21 percent of consumers stopped paying premiums in 2015. Of those people, 87 percent repurchased plans in 2016 and nearly half of them repurchased the same plan.

These new regulations upset Minnesota's market to a far greater degree than most states. The regulations forced Minnesota to move from a stable model—MCHA—to a

completely different model. States that had already required guaranteed issue didn't experience much of a change. And unlike states with less effective high-risk pools, Minnesota had been covering a much larger number of people through MCHA. As a result, Minnesota's individual market was exposed to the largest influx of people from a high-risk pool in the country.

What really set Minnesota apart were state actions regarding MinnesotaCare, MNsure, and rate setting.

First, Minnesota decided to step forward as the first state to establish a Basic Health Plan (BHP) for people with incomes between 138 and 200 percent of the federal poverty guideline. The state BHP operates as a continuation of MinnesotaCare—an existing state program to provide health care to working adults and families. MinnesotaCare now functions as an alternative to using tax credits to buy individual market health plans. This decision removed around 100,000 potential customers from the individual market. By reducing the number of potential customers, the BHP reduces a health plan's incentive to participate.

Second, the state completely botched the rollout of MNsure in 2013. Severe



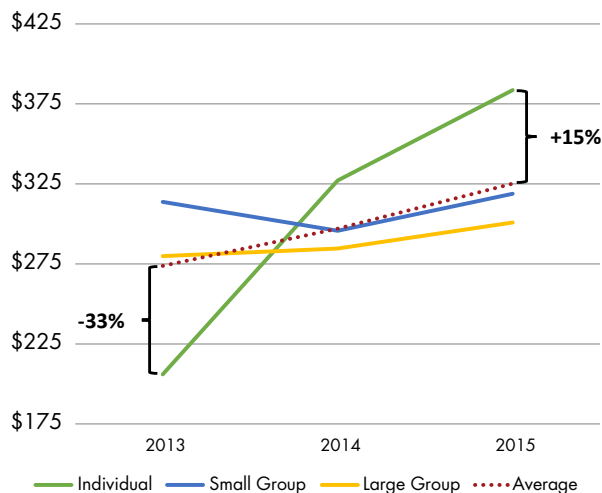
technical problems made it very difficult to enroll in coverage through MNsure and its entirely likely large numbers of people failed to persist in purchasing coverage. Less healthy people, of course, had a much stronger incentive to persevere through the shopping experience. As a result, technical problems with MNsure may have attracted the more persistent, higher-risk customers. Modeling by economists Florian Scheur and Kent Smetters suggests this type of adverse selection might have long-lasting impacts on the market by steering the market to converge to a bad equilibrium.

Third, and by far the most damaging action, the Minnesota Department of Commerce placed pressure on insurers in 2013 to keep 2014 rates unreasonably low. As reported by the *Star Tribune*, “Sometime after the insurer PreferredOne submitted its proposed rates for the first year of the MNsure exchange, state regulators asked the company to consider lowering the numbers” and the insurer then “responded with ‘a total rate decrease of 37 percent,’ according to a July 2013 letter from an outside actuary to the company.”

Research on the early impact of the ACA by Yale economist Amanda Kowalski confirms Minnesota rates were more out of touch with reality than any state in the country. Kowalski collected data on the average monthly premium and average monthly cost for individual market policies in the first two quarters of 2013 and 2014. Her data shows Minnesota was the only state in the country where the average cost incurred by insurers exceeded the average premium paid in the first half of 2014.

Setting 2014 rates so low triggered a chain reaction leading to where we are today. To start, PreferredOne attracted a disproportionate share of former MCHA enrollees in 2014. Both PreferredOne and MCHA enrollees were new to the individual market. Without any base of customers carrying over from 2013 and

Figure 2: Medical Claims Per Member Month, Minnesota



Source: National Association of Insurance Commissioners InsData.

offering among the lowest rates to new MCHA entrants, PreferredOne must have accumulated a disproportionate share of former MCHA members.

After attracting so many high risks, PreferredOne responded by dropping coverage through MNsure in 2015 and raised rates by 63 percent. In response, most of the 77,000 people enrolled in PreferredOne left the company. 2015 enrollment data suggests a majority of them migrated to Blue Cross Blue Shield (BCBS), which experienced a surge of 41,000 enrollees in 2015. Then in 2016, BCBS enrollment dropped from 193,000 to 103,000. No doubt those leaving BCBS were healthier people fleeing the sicker population BCBS attracted from PreferredOne. That left BCBS in an untenable position and, after losing an estimated \$500 million in the first three years of the ACA, BCBS announced they would exit the market.

For 2017, the 103,000 BCBS enrollees who got canceled needed to find a different plan. Again, these are likely higher risk people. Knowing this, the remaining Minnesota insurers have employed every trick in the book to avoid attracting them. They’ve narrowed their networks, set enrollment caps, and Medica even stopped paying brokers to sell their product.

To sum up, gaming open enrollment,

the infusion of MCHA enrollees, opting for a basic health plan, botching the MNsure rollout, and setting rates too low all worked together to create the necessary ingredients for a death spiral—a deteriorating risk pool, rising premiums, and declining enrollment. The dramatic deterioration of the individual market’s risk profile is revealed in Figure 2. In the space of just two years, the individual market went from having 33 percent lower medical claims per member month than average to 15 percent higher.

With around 100,000 disproportionately high risk people leaving BCBS for a different plan in 2017, the cycle begun in 2014 could persist this year if too many high risks again latch on to any one plan. If that happens, the state may experience the loss of a third health plan in 2018. However, with most health plans taking the same approach to avoid those high risks, there may be less reason for high risks to gravitate to any one plan, at least where a choice of plan exists.

Adding to the uncertainty is the ongoing debate in Washington D.C. over how to repeal and replace the ACA, as well as the ongoing debate in Minnesota over how to stabilize the individual insurance market in the face of all that federal uncertainty. For 2017, state lawmakers agreed to buy down premiums by 25 percent, which gave people a last minute opportunity to buy into the market who are hopefully lower risks. Throwing money at the problem was really the only thing lawmakers could do to achieve any immediate impact.

Can Minnesota’s individual market pull out of its death spiral? Maybe, so long as the market settles to some equilibrium in 2017, federal repeal and replace doesn’t aggravate the problem, and state lawmakers remain committed to doing everything they can to stabilize it. ★

A COMMONSENSE VISION

A conservative vision of Minnesota's future



John Hinderaker

The direction in which the Center wants to see Minnesota go.

Center of the American Experiment is dedicated to making Minnesota a better place. What does that mean? What is our vision of a better future for Minnesota? A month or so ago I wrote this brief statement. I think it sums up pretty well the direction in which the Center wants to see Minnesota go.

Our vision for Minnesota's future is a state where:

- A thriving economy creates the best job opportunities in America for our children and grandchildren.
- Economic growth causes people and businesses to move into Minnesota rather than out of Minnesota.
- Small town values are respected, and a farmer's biggest worry is the weather, not regulations coming out of St. Paul.
- The state's natural resources—mining, timber, farm land, hunting, and fishing—are optimally developed for the use and enjoyment of Minnesota residents.
- Families can choose the health care plans and programs that best meet their needs, without being dictated to by government.
- The state's transportation system is designed to allow Minnesotans to get where they want to go efficiently, not to serve the cause of social engineering.
- Cities and counties can govern themselves without undue interference from state and regional authorities.
- Minnesota's sparkling, sky-blue waters are a model of environmental quality.
- Parents can choose the schools that best suit their children from among multiple public and private options, knowing that wherever they go to school, their children will be safe.



Is that a conservative vision of Minnesota's future? Perhaps. I don't shy away from the term. But really, isn't it a commonsense vision? I have little doubt that a large majority of Minnesotans would agree with these objectives. That is one reason I am confident that the Center will succeed in its mission of transforming Minnesota's civic culture to enable the bright future that our great state deserves. ★

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