

AMERICAN ENTERPRISE INSTITUTE
for Public Policy Research

2004
ANNUAL REPORT



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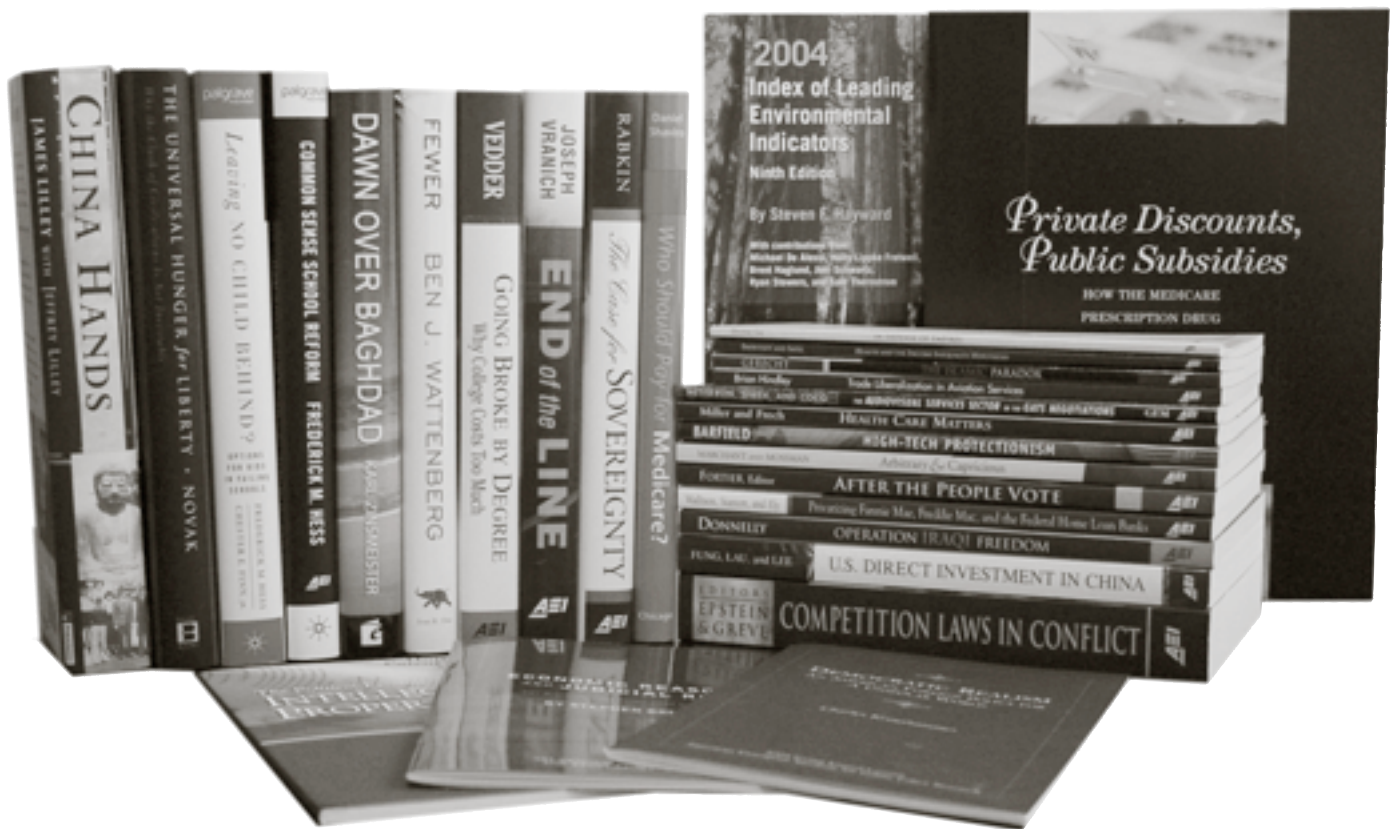
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THE AMERICAN ENTERPRISE INSTITUTE sponsors original research on the world economy, U.S. foreign policy and international security, and domestic political and social issues. AEI is dedicated to preserving and strengthening the foundations of a free society—limited government, competitive private enterprise, vital cultural and political institutions, and vigilant defense—through rigorous inquiry, debate, and writing. The Institute is home to some of America’s most renowned economists, legal scholars, political and social scientists, and foreign policy specialists. AEI is an independent, nonpartisan organization financed by tax-deductible contributions from corporations, foundations, and individuals.



MESSAGE FROM THE CHAIRMAN AND PRESIDENT



President Christopher DeMuth and Chairman Bruce Kovner

The American Enterprise Institute aims to improve the ratio of reason to bombast in political debate. That can be a tough assignment in an election year, so we are gratified to report that the quality, quantity, and visibility of AEI's work were exceptionally high in 2004.

AEI sponsored more than two hundred conferences and seminars during the year, on issues ranging from corporate governance to school reform to the future of the United Nations. Many were nationally televised and most were posted in video, audio, and text on our main website, AEI.org. That site and our several subsidiary ones devoted to regulatory policy, national politics, federalism, NGOs, and other issues are together accessed nearly 500,000 times every month by readers and listeners from outside AEI.

Our array of policy periodicals became richer than ever in 2004; the consistently prescient *Economic Outlook*, which we launched in the early 1990s, is now one of nine specialized publications, including *Environmental Policy Outlook*, *Health Policy Outlook*, and a new *European Outlook*. We distribute them by mail and e-mail to carefully tailored lists of individuals with strong interests in each subject—government officials and legislators, business executives and professionals, and journalists and academics. At the same time, our general-audience publications such as *The*

American Enterprise are winning ever-widening audiences.

The Institute devoted considerable attention throughout the year to both the politics and substance of the national election campaigns. Our detailed evaluations of President George W. Bush's and Senator John Kerry's tax, spending, health care, and trade proposals received wide national coverage, including many references (favorable and unfavorable!) from the candidates themselves. But most of our domestic policy research concerned the momentous issues that will press relentlessly on the new administration and Congress in 2005—the need for fundamental reform in tax, spending, Social Security, health care, and education policy.

Government regulation is one of AEI's oldest research interests and an area where we have been highly influential, going back to airline deregulation and antitrust reform in the late 1970s and early 1980s. In 2004, a surge of ill-considered regulatory initiatives from the Securities and Exchange Commission prompted vigorous analytical responses from Peter Wallison, James Glassman, and several AEI adjunct scholars, as well as the inauguration of *Financial Services Outlook*. Robert Hahn, Steve Hayward, and Joel Schwartz contributed meticulous studies of health, safety, and environmental regulation, and they were joined by two new scholars of exceptional promise—Ted Gayer, a visiting scholar fresh from a senior position at the Council of Economic Advisers, who is working on environmental policy; and Scott Gottlieb, returning to AEI from a senior post at the Food and Drug Administration, who is working on FDA regulation and other aspects of health care policy.

The related subject of “government-sponsored enterprises” has become a new AEI specialty in recent years. In 2004, Peter Wallison's admirable studies of the financial risks and costly privileges of Fannie Mae and Freddie Mac gained real traction in the administration and Congress, and his book coauthored with Thomas Stanton and Bert Ely,

Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks: Why and How, pointed the way to a legislative battle royal in 2005. We were delighted that Alex Pollock, who retired in June from the Federal Home Loan Bank of Chicago, where he was president and CEO, joined AEI to work on these and related issues in financial market policy. AEI also published several important studies on postal service reform (a subject receiving increasing legislative attention following a recent presidential commission and Supreme Court decision) and a wonderful book by Joseph Vranich, *End of the Line: The Failure of Amtrak Reform and the Future of America's Passenger Trains*.

The war on terror and developments in Iraq continued to occupy the attentions of AEI's defense and foreign policy scholars. Tom Donnelly's *Operation Iraqi Freedom: A Strategic Assessment* provided a searching analysis of the U.S.-led coalition's breathtaking military victory and the deeply troubled period that has followed, while Karl Zinsmeister's *Dawn over Baghdad* presented a stirring portrayal of our military's bravery and intelligence in confronting the simultaneous challenges of social reconstruction and counterinsurgency warfare. Reuel Marc Gerecht's *The Islamic Paradox* argues that those who have hated the United States most—Shiite clerics and Sunni fundamentalists—hold the keys to spreading democracy in Iraq and the rest of the Muslim Middle East. All three books were based on extended in-country research that demanded not a little bravery and intelligence from the authors themselves. The many issues of domestic and international law arising from September 11 and its aftermath were vigorously addressed by Visiting Scholars John Yoo and Jack Goldsmith and by Jeremy Rabkin in his splendid book, *The Case for Sovereignty*.



Trustees (clockwise from top left) Tully Friedman, Lee R. Raymond, Harlan Crow, and Kevin B. Rollins

Our work on the Middle East was greatly fortified by the arrival of Michael Rubin (from a distinguished tour at the Pentagon and with the Coalition Provisional Authority), by Danielle Pletka's inauguration of an ambitious new program for promoting free political institutions in the region, and by our increasingly close collaboration with activists and intellectuals from across the Arab world.

As always, we sponsored major new books on subjects of first importance covering the full range of the Institute's research interests—among them Ben Wattenberg's *Fewer: How the New Demography of Depopulation Will Shape Our Future*, Michael Novak's *The Universal Hunger for Liberty*, and Frederick Hess's *Common Sense School Reform*.

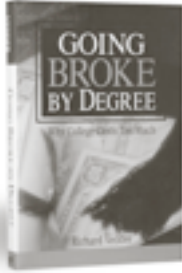
We note in closing the retirement in 2004 of Mark Falcoff, whose over twenty years at AEI produced innumerable books and essays on Latin America of surpassing quality. Deeply learned, high spirited, a trenchant analyst and lucid writer, Mark has been the exemplary AEI scholar, and we trust he will continue to be in his lofty new status of resident scholar emeritus.

BRUCE KOVNER
Chairman

CHRISTOPHER DEMUTH
President

ECONOMIC POLICY STUDIES

AEI was founded mainly to conduct economic policy research. Although the scope of the Institute's activities has broadened over the years, that work remains the core. The overriding aim is to understand the functioning of free economies—how to preserve them, how to solve the problems that arise in them, and how to capitalize on their strengths.



“Going Broke by Degree is [an] example of Richard Vedder’s effectiveness at breaking down public policy myths and shining the light of factual research and market truths on the process. This book shows how parents across America are picking up the tab for higher education costs as a result of increased spending at colleges and universities that often has nothing to do with the education of our young people.”

—South Carolina governor MARK SANFORD

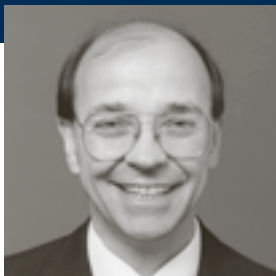
“As it becomes clearer to investors and other corporate stakeholders that GAAP financial reports are unable to capture the value of intangible assets, pressure will build for a legislative or regulatory solution. When that solution comes, it will be imposed from the top and will have all the deficiencies that top-down regulation implies. It is far better . . . for the U.S. business community to begin now the development of the key performance indicators that will be necessary for financial reporting in the future.”

—PETER J. WALLISON

“Unfortunately, no quick policy fixes can responsibly and effectively control Medicare spending. The key to cost savings is fundamental reform that changes the incentives facing patients, providers, and health plans and that improves the efficiency of health care delivery.”

—JOSEPH ANTOS

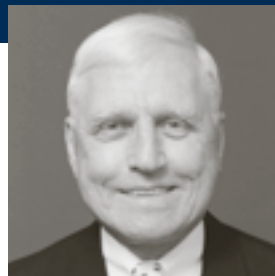
AEI FELLOWS & SCHOLARS



Joseph Antos, Wilson H. Taylor Scholar in Health Care and Retirement Policy, examines government spending on health care. His articles have appeared in the *American Economic Review*, *Health Affairs*, the *Journal of Econometrics*, and the *Monthly Labor Review*. He is a contributor to AEI's bimonthly *Health Policy Outlook* and the coauthor of *The Youth Labor Market: A Dynamic Overview* (1979, with Wesley Mellow) and *Private Discounts, Public Subsidies: How the Medicare Prescription Drug Discount Card Really Works* (2004, with Ximena Pinell).



Resident Scholar **Leon Aron** is a leading expert on political and social developments in Russia and the other nations of the former Soviet Union. He writes AEI's quarterly *Russian Outlook*, and his articles have appeared in the *New York Times*, the *Times* of London, the *Wall Street Journal*, the *Washington Post*, *Commentary*, *The Weekly Standard*, and *The National Interest*, as well as scholarly journals. He is the author of *Yeltsin: A Revolutionary Life* (2000).



Resident Scholar **Claude E. Barfield** studies international trade policy, U.S. competitiveness, and science and technology policy. He is the author of *High-Tech Protectionism: The Irrationality of Antidumping Laws* (2003) and *Free Trade, Sovereignty, Democracy: The Future of the World Trade Organization* (2001). He is completing a sequel to *Tiger by the Tail: China and the World Trade Organization* (1999, with Mark A. Groombridge).



Roger Bate is a visiting fellow researching water, health, and pesticide policy in developing countries and international environmental and health agreements. A contributor to the *Washington Post*, the *Financial Times*, and South Africa's *Business Day*, he is also the author of *Malaria and the DDT Story* (2001) and *Life's Adventure: Virtual Risk in a Real World* (2000). He contributed essays in 2004 to both AEI's *Health Policy Outlook* and *Environmental Policy Outlook*.

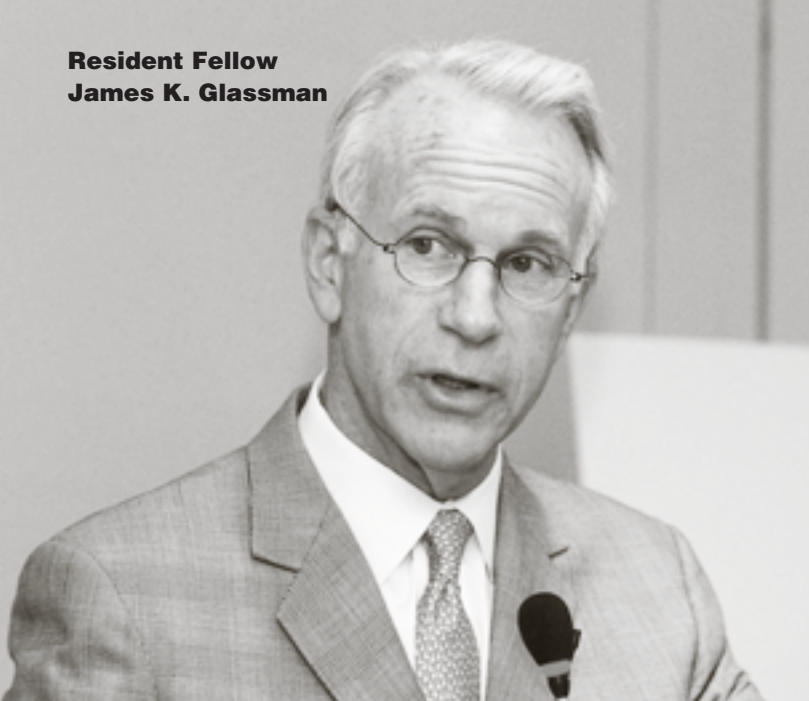
**Resident Fellow
Scott Gottlieb**



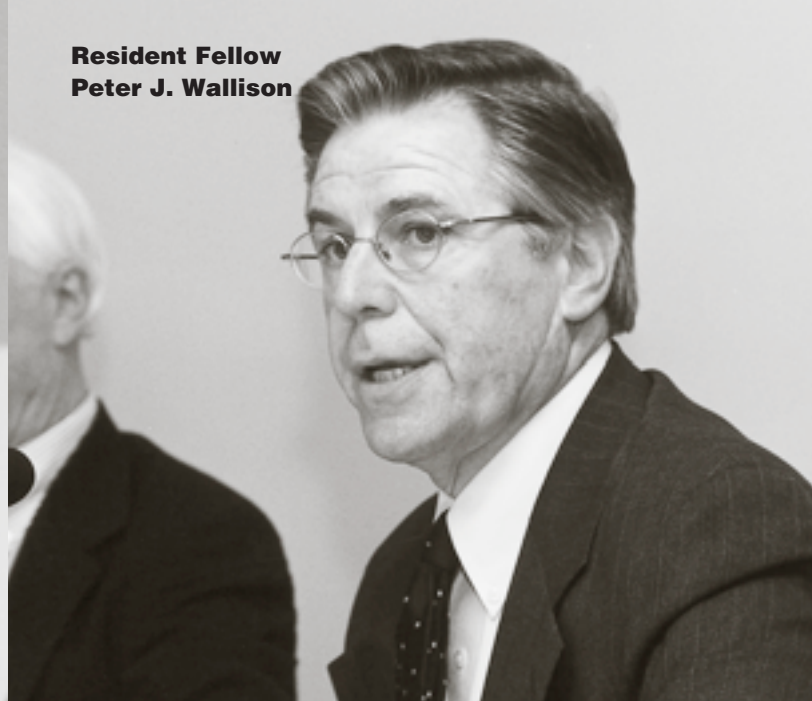
**Resident Scholar
Kevin A. Hassett**



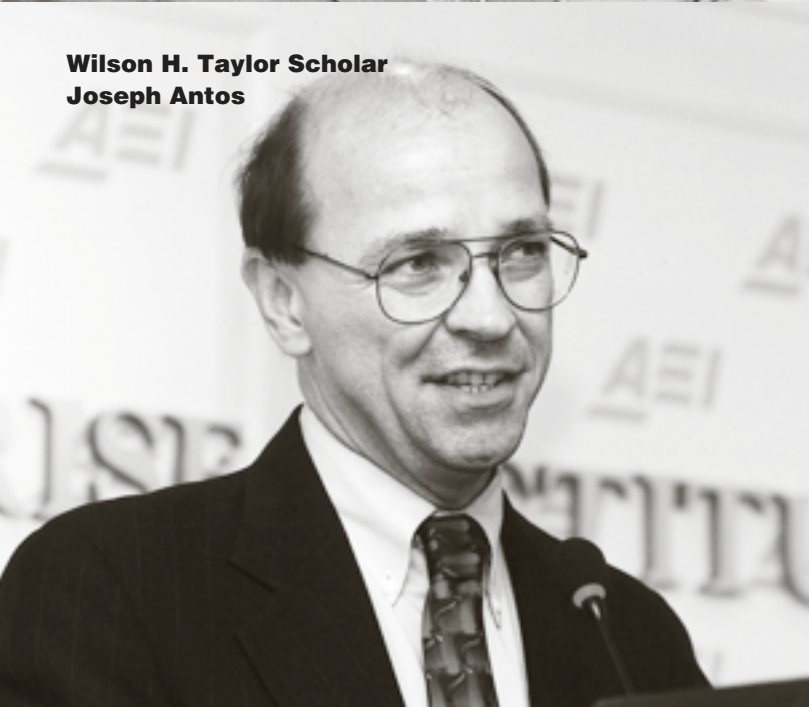
**Resident Fellow
James K. Glassman**



**Resident Fellow
Peter J. Wallison**



**Wilson H. Taylor Scholar
Joseph Antos**



**Visiting Fellow
Roger Bate**



GENERAL ECONOMICS

■ In February, AEI hosted an all-day conference that examined the advantages of high productivity growth. U.S. productivity growth accelerated in the mid-1990s and, despite the 2001 recession, surged ahead over the next two years. Experts, including Secretary of Labor Elaine L. Chao, Diana Furchtgott-Roth of the U.S. Department of Labor, Marvin H. Kosters, and Kathleen Utgoff of the Bureau of Labor Statistics, debated the importance of the relationship between productivity and the rate of recovery in the labor market.

■ In the current U.S. economic recovery, official statistics show strong growth in productivity and GDP but not significant employment increases. Panelists at a May seminar explored possible design flaws in government statistics that may lead to misinterpretations of job creation and also addressed whether the United States is truly in a jobless recovery.

■ The Institute's monthly *Economic Outlook*, by John H. Makin, identifies and analyzes the major trends in the U.S. and world economies. In 2004, Mr. Makin addressed themes such as higher growth and lower inflation for the United States, problems concerning exchange rates, China's paradoxical economy, the U.S. and Japanese economic recoveries, the relationship between oil and stagflation, and the policies needed to sustain the current U.S. recovery.



Visiting Scholar **John H. Makin**

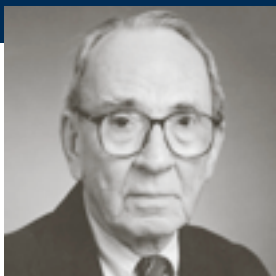


N. Gregory Mankiw, chairman of the Council of Economic Advisers

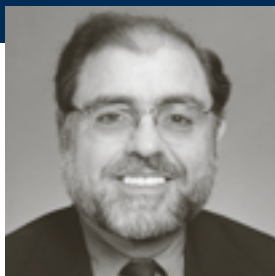
■ At "The Political Economy of World Mass Migration," AEI's 2004 Henry Wendt Distinguished Lecture (later published as a monograph by the AEI Press), Jeffrey G. Williamson of Harvard University considered the globalization that has produced the tremendous surge in world output over the past two hundred years and the dramatic international movement of people in pursuit of economic opportunity that has fueled that growth.

■ The AEI working paper series, launched in 2004, makes developing academic works available in preliminary form for open comment and suggestions and often allows important scholarship to reach the policy community long before the work is available in academic journals. These papers have covered such topics as federal government debt and interest rates, the effectiveness of federal spending on homeland security, the fiscal and social costs of consolidating student loans at fixed interest rates, and the expensing of employee stock options.

AEI FELLOWS & SCHOLARS



Resident Scholar **Walter Berns**, the John M. Olin University Professor Emeritus at Georgetown University, writes on constitutional theory, legal issues, and political philosophy. His books include *Making Patriots* (2001); *Taking the Constitution Seriously* (1987); *In Defense of Liberal Democracy* (1984); and *For Capital Punishment: Crime and the Morality of the Death Penalty* (1979). He is one of the key contributors to *After the People Vote: A Guide to the Electoral College* (third edition, 2004).



Douglas J. Besharov, the Joseph J. and Violet Jacobs Scholar in Social Welfare Studies, researches ways to reduce poverty, social dependency, family violence, illegitimacy, and teenage pregnancy. He has written several books, including *Rethinking WIC: An Evaluation of the Women, Infants, and Children Program* (2001, with Peter Gemmanis), and he has edited *Family and Child Well-Being after Welfare Reform* (2003). Mr. Besharov directs the Welfare Reform Academy at the University of Maryland.



Resident Fellow **Daniel Blumenthal** joined AEI's Asian Studies program in late 2004 after serving in the Office of the Secretary of Defense as team chief and country director for international security affairs in Asia. He has written for the *Washington Post* and other publications, and he will be the principal author of AEI's *Asian Outlook*, which will appear in 2005.



Resident Fellow **Karlyn H. Bowman** is an expert on American politics and public opinion. She writes a regular feature for *Roll Call* and edits the "Opinion Pulse" section of *The American Enterprise*. In 2004, she released a study of public opinion on the politics of compassion, and she updated studies on Social Security, the war on terrorism and the war in Iraq, taxes, the environment, and homosexuality and gay marriage.

FISCAL AND MONETARY POLICY

■ AEI's Tax Reform Project, directed by Kevin A. Hassett, produces books and monographs and organizes a seminar series on the full range of issues that the major tax reform strategies raise. In 2004, the project produced *The X Tax in the World Economy* by David F. Bradford, which explores how an innovative tax design could alleviate the complexities plaguing the existing U.S. system for taxing international business income. Mr. Bradford finds that an origin-based approach to transborder business transactions presents fewer challenges of monitoring the flow of goods and services across borders. *Corporate Tax Shelters in a Global Economy: Why They Are a Problem and What We Can Do about It*, by Visiting Scholar Daniel Shaviro, explores the causes and costs of corporate tax avoidance and provides a useful guide to the key conceptual issues that must be addressed for reform to be effective.

■ In 2004, Veronique de Rugy came to AEI as a research fellow examining tax and budget policy and financial privacy. To honor Ronald Reagan at the time of his death in June 2004, she released a study that compared his widespread reductions in domestic spending with those of previous presidents. The study showed that President Reagan was the only president in the last forty years to cut inflation-adjusted nondefense outlays, which fell by 9.7 percent during his first term.

■ Prime Minister David Oddsson of Iceland came to AEI in June to discuss the rapid growth of his country's wealth through a business-friendly environment and low tax rates on individuals and corporations.

■ *A History of the Federal Reserve, Volume I, 1913–1951*, Allan H. Meltzer's landmark work published in 2002, received the Alice Hanson Jones Award, given biennially for the most outstanding book in North American economic history.

David Oddsson, prime minister of Iceland



Anne Krueger, first managing director, International Monetary Fund



Visiting Scholar R. Glenn Hubbard



Bill Thomas, chairman of the U.S. House Ways and Means Committee

■ Higher interest rates reduce business investment spending, inhibit interest-sensitive household spending, and decrease the value of assets held by households. Many economists believe that higher federal deficits drive interest rates up. Using a standard set of data for the United States, Eric M. Engen, Mr. Meltzer, and other experts examined the effect of federal government debt on interest rates at a July seminar and showed that the connection is tenuous.

■ At a January event, Peter Diamond, a professor at the Massachusetts Institute of Technology, and Peter Orszag of the Brookings Institution presented their plan to combine tax increases and changes in the structure of Social Security benefits to eliminate financial imbalances.

■ In June, Rodrigo Rato assumed the helm of the International Monetary Fund as managing director, at a time when major global economic imbalances were contributing to exchange rate instability and when higher global interest rates posed difficulties for the larger emerging-market economies. At a June conference, R. Glenn Hubbard, Desmond Lachman, and Mr. Meltzer assessed the necessary reforms to allow the IMF to meet these challenges and the role that the IMF might play in promoting more orderly exchange markets. Under Secretary of the Treasury John Taylor gave the keynote address.

■ Under Secretary Taylor also spoke at a November conference on the policy consequences of the record U.S. current account deficit. Other panelists considered the role of currency intervention in exacerbating the situation.

■ In December 2001, Argentina defaulted on the largest amount of sovereign debt in world history. In the immediate aftermath of that default, the Argentine economy collapsed and unemployment rose to high levels. Argentina has made little progress in restructuring its private sector debt, although the Argentine economy does appear to have bottomed out. At a March seminar, panelists discussed Argentina's options for rescheduling its external debt and for designing economic policies to cope with its difficult economic circumstances.

INTERNATIONAL TRADE AND FINANCE



■ *U.S. Direct Investment in China* (2004), by K. C. Fung, Lawrence J. Lau, and Joseph S. Lee, draws on extensive new data on investment and trade to show that direct investment in China by U.S. firms increases trade between the two countries and should significantly enhance China's economic growth in the long run.

■ At a March event, led by Claude E. Barfield and cosponsored by the Korea International Trade Association, one panel assessed recent developments in the law and policy of subsidies and the issues that will challenge policymakers in the future. A second panel questioned

whether trade remedy laws work when applied to rapidly changing, high-tech industries and the unexpected problems that have emerged from the application of traditional trade remedies to nontraditional settings. An October event, also cosponsored by KITA, included Mr. Barfield and Robert Rogowsky of the U.S. International Trade Commission, who

evaluated prospects for new regional trade arrangements in Asia.

■ In *Trade Liberalization in Aviation Services: Can the Doha Round Free Flight?* (2004), Brian S. Hindley discusses the General Agreement on Trade in Services (GATS) of the WTO and the possibility of new international rules for air freight and related services.

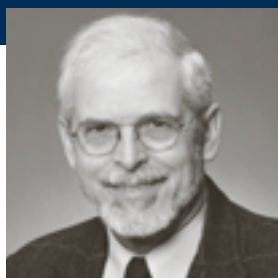
■ *The Audiovisual Services Sector in the GATS Negotiations* (2004), by Patrick A. Messerlin, Stephen E. Siwek, and Emmanuel Cocq, addresses issues posed by trends and developments in trade of audiovisual services. Mr. Siwek examines options for meaningful trade liberalization for entertainment products in the GATS negotiations. Mr. Messerlin and Mr. Cocq focus on the profound economic and technological changes in importing countries, including the large European film market.

■ A December conference looked at how investment abroad affects the U.S. economy. The five panels included a bipartisan discussion of current policy options. N. Gregory Mankiw, chairman of the Council of Economic Advisers, gave the keynote speech.

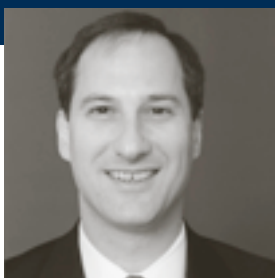
Visiting Scholar Allan H. Meltzer



AEI FELLOWS & SCHOLARS



Resident Scholar **John E. Calfee** analyzes government policies pertaining to pharmaceuticals, the Food and Drug Administration, health care policy, advertising, and the tort liability system. He has written two books: *Fear of Persuasion: A New Perspective on Advertising and Regulation* (1997) and *Prices, Markets, and the Pharmaceutical Revolution* (2000). He contributes occasionally to AEI's *Health Policy Outlook*.



Charles W. Calomiris is AEI's Arthur F. Burns Scholar in Economics and the Henry Kaufman Professor of Financial Institutions at Columbia Business School. Mr. Calomiris is the author of *A Globalist Manifesto for Public Policy* (2002); *U.S. Bank Deregulation in Historical Perspective* (2000); *Emerging Financial Markets* (2000, with David O. Beim); and *High Loan-to-Value Mortgage Lending: Problem or Cure?* (1999, with Joseph R. Mason).



Senior Fellow **Lynne V. Cheney** is the author of *Telling the Truth: Why Our Culture and Our Country Have Stopped Making Sense—and What We Can Do about It* (1995) and *Kings of the Hill: How Nine Powerful Men Changed the Course of American History* (revised edition, 1996; with Dick Cheney). Her most recent book, *When Washington Crossed the Delaware*, was published in 2004. Mrs. Cheney returned to AEI in January 2005 following a six-month leave of absence.



Christopher DeMuth has been the president of AEI since 1986. He is the coeditor of *The Neoconservative Imagination: Essays in Honor of Irving Kristol* (1995). His writings on government regulation and other subjects have appeared in the *Wall Street Journal*, *Commentary*, *The Weekly Standard*, *The Public Interest*, the *Harvard Law Review*, and the *Yale Journal on Regulation*.

FINANCIAL MARKETS

■ In 2004, the AEI Press released *Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks: Why and How*, by Peter J. Wallison, Thomas H. Stanton, and Bert Ely, which represents the culmination of years of research by Mr. Wallison on government-sponsored enterprises. The authors demonstrate that it is possible to cut the ties between the government and the GSEs without disrupting the current system of residential mortgage finance. In addition, they find that it would be possible to obtain lower mortgage rates than those currently offered by Fannie Mae and Freddie Mac.

■ Alex J. Pollock joined AEI in 2004 as a resident fellow researching financial markets and government-sponsored enterprises. Previously he served as president and chief executive officer of the Federal Home Loan Bank of Chicago.

■ AEI's monthly *Financial Services Outlook*, authored by Mr. Wallison and Mr. Pollock, debuted in 2004. Topics have included business reporting for investors, privatization of the housing GSEs, the Securities and Exchange Commission and market structure reform, the Sarbanes-Oxley Act, and the SEC's proposed shareholder-voting rule.

■ Two papers presented at a January conference argued that it would be questionable accounting policy to require the expensing of employee stock options without an accepted and adequate method for doing so. Panelists, including SEC commissioner Paul Atkins, responded to the argument that the Financial Accounting Standards Board should abandon the effort to expense stock options until a satisfactory method of establishing their value has been developed. A related event in June concluded that major changes are necessary in what accountants are asked to certify and in the public perception of financial statements themselves.

■ Adopted in the wake of Enron and other corporate scandals, the Sarbanes-Oxley Act and subsequent regulations by the New York Stock Exchange and Nasdaq mandated the dominance of corporate boards and audit committees by independent directors. A May all-day conference on these issues featured AEI trustee Kevin B. Rollins, president and CEO of Dell Inc.



Resident Fellow Alex J. Pollock

■ AEI sponsors the U.S. Shadow Financial Regulatory Committee (SFRC), a group of publicly recognized independent experts on the financial services industry, including banking, insurance, and securities. In 2004, John D. Hawke Jr. joined the committee after his term as comptroller of the currency expired. The committee's quarterly meetings in 2004 covered topics such as hedge funds, Basel capital standards, the mutual fund industry, federal chartering of insurance companies, the SEC shareholder voting rights proposal, government-sponsored enterprises, pension fund problems, GSE privatization, and international accounting standards.

■ In November, AEI hosted the annual joint meeting of the SFRCs of the United States, European Union, Japan, Latin America, and Asia, representing twenty-five developed and developing countries. The members discussed the liberalization of trade in financial services and developed a joint policy statement released at a press briefing. This statement concluded, among other things, that countries should continue to eliminate direct restrictions on the entry of foreign financial institutions and that countries should mutually recognize the validity of each other's standards.

■ A number of innovative and successful systems of housing finance exist in other countries, and several European countries boast higher percentages of home ownership than the United States. At a March event led by Mr. Pollock and Mr. Wallison, experts explored how other developed countries finance home mortgages and compared these systems to those in the United States.

■ Several events considered securities-market structure and whether investors are better served by human-mediated markets such as the specialist system of the New York Stock Exchange, or by electronic markets such as Nasdaq and the Electronic Communication Networks. The SFRC's Kenneth M. Lehn and Sukesh Patro and Kuldeep Shastri of the University of Pittsburgh presented June and October papers that tackled this question.

ENVIRONMENTAL POLICY

■ In 2004, Joel Schwartz, a veteran of the California agency charged with evaluating the state's vehicle emissions inspection program, came to AEI as a visiting fellow. His projects at AEI include work on air pollution, transportation, and chemical risks.

■ AEI and the Pacific Research Institute released the *2004 Index of Leading Environmental Indicators* (ninth edition), an annual report that analyzes and summarizes overlooked government data on the environment, most of which demonstrates substantial environmental progress over the last generation.

■ The *Environmental Policy Outlook* is a bimonthly essay on trends and controversies in environmental regulation. Issues in 2004 addressed such topics as the Kyoto Protocol and solutions to greenhouse emissions from developing countries, New Source Review, climate change and mosquito-borne disease, emissions statistics, and air pollution.

■ An April panel showcased a preliminary draft of a forthcoming AEI study on air quality in America, which will analyze conditions and trends at the level of individual pollution monitors throughout the nation, offering one of the most detailed pictures of air quality ever produced.



**F. K. Weyerhaeuser Fellow
Steven F. Hayward**



Visiting Scholar Ted Gayer

■ Ted Gayer, an associate professor at Georgetown University, joined AEI in 2004 as a visiting scholar. He previously served as a senior economist on the Council of Economic Advisers. His research examines existing environmental regulations, the health impacts of environmental pollutants, and standard risk-assessment practices of regulatory agencies.

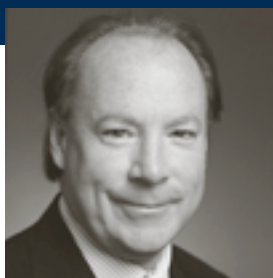
■ Roger Bate published dozens of articles in 2004 on international water policy, the use of pesticides such as DDT, and Europe's regulation of toxic chemicals. He and David Montgomery of Charles River Associates cowrote one of Mr. Bate's two *Environmental Policy Outlooks* in 2004, which proposed an alternative approach to the Kyoto Protocol that would limit emissions while helping economic development in poorer countries.

■ Steven F. Hayward organized AEI's second annual climate policy conference in November, which began in 2003 with an event revisiting the 1992 Rio Earth Summit. The 2004 event convened international experts to examine the controversy over emissions forecasting scenarios and methods.

AEI FELLOWS & SCHOLARS



Veronique de Rugy came to AEI in 2004 as a research fellow for tax and budget policy and financial privacy. Her work has appeared in the *Washington Times* and on Tech Central Station and National Review Online. A study she released in October prompted the *Washington Post* editorial page to call for "a thorough overhaul of homeland security spending."



Resident Fellow **Thomas Donnelly**, author of AEI's *National Security Outlook*, analyzes U.S. strategic defense and international security issues. His writing has been published in the *Washington Post*, the *Wall Street Journal*, *Foreign Affairs*, and *The National Interest*, and he is the author of several books and studies, including *The Khobar Towers Bombing Incident* (1996); *Rebuilding America's Defenses: Strategy, Forces, and Resources for a New Century* (2000); and, most recently, *Operation Iraqi Freedom: A Strategic Assessment* (2004).



Nicholas Eberstadt is AEI's Henry Wendt Scholar in Political Economy. His books include *Korea's Future and the Great Powers* (2001, coeditor); *Prosperous Paupers and Other Population Problems* (2000); *The End of North Korea* (1999); and *The Tyranny of Numbers: Mismeasurement and Misrule* (1995). In 2004, the AEI Press released his book *Health and the Income Inequality Hypothesis: A Doctrine in Search of Data*, coauthored with Sally Satel.



Resident Scholar **Eric M. Engen** researches Social Security, tax policy, and other economic issues. His work has appeared in the *Journal of Monetary Economics*, the *Journal of Economic Perspectives*, the *National Tax Journal*, *Tax Notes*, and the *American Economic Review*.

REGULATION

■ The AEI-Brookings Joint Center for Regulatory Studies, directed by Robert W. Hahn and Robert E. Litan of the Brookings Institution, produces analyses of federal regulations and rulemaking proposals, proposals for improving regulatory policy through the use of cost-benefit analysis and private-market alternatives to government dictates, and studies of regulatory programs and their economic consequences.

■ The appropriate dimensions of protection for intellectual property rights in general, and patents in particular, have been matters of controversy since the sixteenth century. Software and biotechnology, both relatively new areas to come under the patent umbrella, have brought the debate to a fevered pitch in recent years. In April, the Joint Center invited leading scholars to illuminate the issues for these two industries, which are closely identified with innovations in high technology.

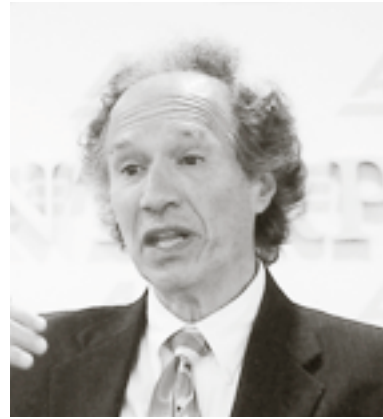
■ Once again in 2004, the Joint Center held its two-week Economics Institute for State Judges. This program, divided into two five-day sessions, provides state judges with practical concepts in economics, finance, accounting, statistics, and scientific methodology.

■ At a May conference organized by Mr. Hahn and Scott Wallsten, panelists such as Kathleen Abernathy, commissioner of the Federal Communications Commission, discussed the sort of regulation that makes sense for the wireless communications industry, as well as the appropriate division of responsibility between state and federal agencies.

■ At the 2004 Joint Center Distinguished Lecture, Sam Peltzman, a member of AEI's Council of Academic Advisers and a professor at the University of Chicago, explained how regulations frequently fall short of their goals because of offsetting personal or market behavior.

■ In 2004, the AEI Press published *Economic Reasoning and Judicial Review* (2004), which was delivered as the Joint Center's 2003 Distinguished Lecture by Supreme Court Justice Stephen Breyer. This monograph examines the understanding of social and economic regulation, copyright law, and administrative law.

■ *The Political Economy of Intellectual Property Law* (2004), by William Landes and Richard Posner, explains the expansion of intellectual property law over the last half century, focusing in particular on the rapid growth that began with the 1976 Copyright Act. In so doing, it



Sam Peltzman, Council of Academic Advisers



Resident Scholar Robert W. Hahn

explores why some kinds of regulation have increased dramatically over this period while others have virtually disappeared.

■ Participants at a February conference, who included David S. Sibley of the Antitrust Division at the U.S. Department of Justice and J. Gregory Sidak, analyzed the growing use in the United States and Europe of antitrust law in network industries traditionally subject to sector-specific regulation, such as telecommunications.

■ The provisions in the Telecommunications Act of 1996 concerning competition for local telephone services have been especially controversial, and it is likely that Congress will revisit telecommunications legislation in 2005. A December Joint Center conference featuring F. Duane Ackerman, chairman and CEO of BellSouth Corporation, considered the next steps in telecommunications regulation.

■ At a September Joint Center seminar, Cass Sunstein of the University of Chicago Law School and W. Kip Viscusi of Harvard Law School reviewed recent data on what people are willing to pay to reduce different kinds of risks and how this information should be used in public policy decisions.

■ In recent years, the European Union has set up numerous agencies to deal with subjects such as environmental protection, health and safety at work, food safety, and aviation safety. At an April event, Damien Geradin of the University of Liège and Judge Stephen F. Williams of the U.S. Court of Appeals for the D.C. Circuit compared European agencies with their U.S. counterparts and explored ways in which these agencies could learn from the U.S. experience.

■ To educate and invigorate the public discussion sparked by the President's Commission on the United States Postal Service, AEI continued to produce its series of papers authored by Rick Geddes of Cornell University, which assess the state of the postal industry and various avenues potential reform might take.

HEALTH POLICY



Administrator Mark McClellan, Centers for Medicare and Medicaid Services

■ After stints at the Food and Drug Administration and the Centers for Medicare and Medicaid Services, Scott Gottlieb, M.D., returned to AEI in 2004 as a resident fellow. Dr. Gottlieb researches regulatory reform of the FDA and pharmaceutical pricing.

■ In September, Joseph Antos and a team of independent actuaries and cost estimators presented a detailed analysis of President George W. Bush's and Senator John Kerry's health care reform proposals. The AEI analysts estimated widely different costs and impacts for the two proposals.

■ *Health Care Matters: Pharmaceuticals, Obesity, and the Quality of Life* (2004), by H. E. Frech III and Richard D. Miller, shows that it is time to rethink conventional health care wisdom, particularly regarding the consumption of pharmaceuticals. In this sequel to their 1999 book, *The Productivity of Health Care and Pharmaceuticals: An International Comparison*, the authors extend their analysis to quality of life, disease-specific life expectancy, and the impact of obesity.

■ In *Who Should Pay for Medicare?* (2004), Visiting Scholar Daniel Shaviro asks how Medicare will meet the needs of its recipients. The author offers an accessible overview of how Medicare operates as a fiscal system, examining the dynamics of the significant funding gap facing Medicare.

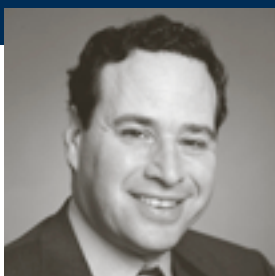
■ AEI's bimonthly *Health Policy Outlook* focuses on timely health policy issues such as Medicare's prescription-drug benefit and pharmaceutical importation. The 2004 outlooks covered the effects of the Medicare Modernization Act and potential reforms for the program, obstacles to treating AIDS in developing countries, the Bush and Kerry health insurance proposals, and the regulatory roots of the decline in vaccine development and production.

■ *Private Discounts, Public Subsidies: How the Medicare Prescription Drug Discount Card Really Works* (2004), by Mr. Antos and Ximena Pinell, critically examines the Medicare prescription-drug benefit. The authors trace the origins of the discount card program and other discount and assistance programs and make recommendations for selecting Medicare discount cards and encouraging enrollment. This study documents the need for better consumer information, particularly on special discounts offered by pharmaceutical companies that can provide generous savings to low-income beneficiaries.

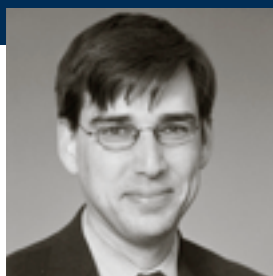
AEI FELLOWS & SCHOLARS



Research Fellow **John C. Fortier** is the executive director of the Continuity of Government Commission and an adjunct professor at the University of Pennsylvania. He has published articles in the *Review of Politics*, the *Election Law Journal*, the *Journal of Law Reform*, the *New York Times*, and the *Los Angeles Times*. He is the editor of the third edition of *After the People Vote: A Guide to the Electoral College*, which the AEI Press published in 2004.



David Frum is a resident fellow analyzing U.S., British, and Canadian politics. Mr. Frum is a contributing editor to *The Weekly Standard* and a columnist for Canada's *National Post*. He is the author of *An End to Evil: How to Win the War on Terror* (2003, with Richard Perle); *The Right Man: The Surprise Presidency of George W. Bush* (2003); *How We Got Here: The '70s: The Decade That Brought You Modern Life—for Better or Worse* (2000); and *Dead Right* (1994).



Ted Gayer, an associate professor at Georgetown University, joined AEI in 2004 as a visiting scholar after serving as a senior economist on the Council of Economic Advisers. His research broadly examines the efficiency of existing environmental regulations, the health impacts of environmental pollutants, and the biases inherent in standard risk-assessment practices of regulatory agencies. The two-volume collection *Classics in Risk Management*, which he edited with W. Kip Viscusi, was published in August 2004.



Resident Fellow **Reuel Marc Gerecht** analyzes the Middle East, Central Asia, intelligence, and terrorism. Mr. Gerecht's articles have appeared in *The Atlantic Monthly*, *Foreign Affairs*, *The New Republic*, *The Weekly Standard*, the *New York Times*, the *Wall Street Journal*, and the *Washington Post*. He is the author of *Know Thine Enemy: A Spy's Journey into Revolutionary Iran* (1997). His latest book, *The Islamic Paradox: Shiite Clerics, Sunni Fundamentalists, and the Coming of Arab Democracy*, was released in 2004.

HEALTH POLICY, continued

■ The Medicare trustees released their new report on the financial condition of Medicare in March. Richard Foster, Medicare's chief actuary, presented the report's new findings at AEI, and a panel of current and former government officials, including Douglas Holtz-Eakin of the Congressional Budget Office and the Urban Institute's Robert Reischauer, commented on them.

■ State Medicaid programs have begun to implement different approaches to disease management, and the new Medicare legislation mandates several initiatives intended to improve the care of those with chronic illnesses. Experts at a March seminar, including Mr. Antos and Rhonda Medows, former secretary of Florida's Agency for Health Care Administration, grappled with these issues. At an April health policy discussion, four experts led by John E. Calfee offered their perspectives on how to improve public policies toward vaccine supply, with emphasis on the roles of the industry, the medical community, the Centers for Disease Control, and the FDA. Finally, panelists at a December event, led by Mr. Calfee and Mr. Gottlieb, discussed the various factors that impede the U.S. vaccine market from functioning well and evaluated a number of proposed solutions for the market's problems.

■ AEI hosted speeches by two corporate health care leaders in 2004: Leonard D. Schaeffer, chairman and CEO of WellPoint Health Networks and former administrator of the Centers for Medicare and Medicaid Services, and Denis Cortese, president and CEO of the Mayo Clinic. Mr. Schaeffer envisioned a future where health plans collect, integrate, and interpret data that is effectively used to guide health care decisions of physicians and health care choices of patients. Mr. Cortese proposed a health care system geared toward learning from its mistakes and its successes, continually refining the way health care is practiced.



Leonard D. Schaeffer, chairman and CEO of WellPoint Health Networks

■ In 2004, AEI's health policy program focused attention on global pandemic diseases such as malaria, tuberculosis, and AIDS. In February, Health and Human Services secretary Tommy Thompson and Global AIDS Coordinator Randall L. Tobias evaluated the U.S. response to HIV/AIDS to date. A May all-day conference expanded on these issues and specifically highlighted new problems with fixed-dose combinations of anti-retroviral drugs, not yet approved by the Food and Drug Administration but "pre-qualified" by the World Health Organization. Roger Bate, Nicholas Eberstadt, Dr. Gottlieb, and others recommended ways that policymakers should confront the obstacles to treating pandemic diseases in the developing world.

■ At an April health policy discussion, David M. Walker, comptroller general and head of the U.S. General Accounting Office, presented the agency's plan to help congressional policymakers systematically evaluate proposed health care reforms.

■ Mr. Calfee organized an October health policy discussion on the state of the European pharmaceutical industry, with Fabio Pammolli of the University of Florence.

■ Health Savings Accounts (HSAs) have proven to be one of the most controversial provisions of the Medicare Modernization Act of 2003. The future of HSAs, and their effect on health care markets, will depend greatly on how the law is interpreted by the U.S. Treasury Department's guidance. At a July health policy discussion, Roy Ramthun and William Sweetnam Jr. of the Treasury Department explained departmental efforts to develop HSAs within the provisions of the law, and three experts on HSAs and private health insurance markets assessed the Treasury's new guidance and its effect on the future of health insurance.

■ In June, New York State attorney general Eliot Spitzer sued the maker of an antidepressant for withholding unfavorable information about the safety and effectiveness of a drug. The suit, filed in the New York Supreme Court and settled this summer, claimed that GlaxoSmithKine conducted at least five studies on the use of Paxil in children and adolescents but only published the one study showing a positive effect. A September all-day conference featuring Mr. Calfee, Dr. Gottlieb, Sally Satel, Daniel Troy, and others addressed the benefits and unintended negative consequences of various public database scenarios.

Henry McKinnell, CEO of Pfizer

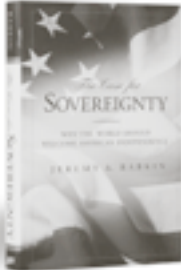


Randall L. Tobias, global AIDS coordinator, U.S. State Department



FOREIGN AND DEFENSE POLICY STUDIES

AEI's work in foreign and defense policy seeks to improve the understanding of how political and economic freedom, as well as American interests, can be advanced around the world. AEI scholars analyze relations between the United States and its allies; security threats, currently focusing on Asia and the Middle East; the transition to democratic capitalism in developing and postcommunist countries; and the performance of international organizations and institutions.



“Nowadays, almost all important arguments about U.S. foreign policy raise the question of our national sovereignty. Must it be diluted to make the world safe for America—or to make America safe for the world? Jeremy Rabkin offers a robust and altogether convincing refutation of the notion that our sovereignty is an anachronism.”

—GEORGE F. WILL, syndicated columnist

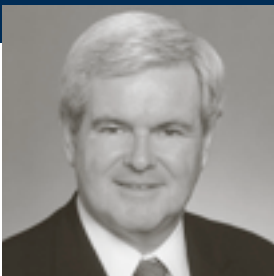
“American strategists, even as they try to preserve the Pax Americana, would do well to contemplate alternative systems of international security; maintaining the U.S. position as global hegemon, however benignly, could ultimately prove beyond our capacity or our will. If that proves the case, then American policy must be trimmed either by limiting our strategic ends, hoping that means other than military power can achieve the same strategic ends, or crafting alternative strategies.”

—THOMAS DONNELLY

“The United States must decide whether it is more efficient to put together [allied coalitions] ad hoc, with all the nuisance of organizing afresh, or to turn to associations such as NATO, for which coordinating military coalitions is a daily routine.”

—RADEK SIKORSKI

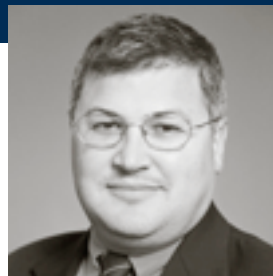
AEI FELLOWS & SCHOLARS



Senior Fellow **Newt Gingrich** focuses his research on health care, information technology, and national security. Mr. Gingrich is the author or coauthor of several books, including *To Renew America* (1995); *Lessons Learned the Hard Way: A Personal Report* (1998); and *Saving Lives and Saving Money: Transforming Health and Health Care* (2003). His latest book, *Winning the Future: A 21st Century Contract with America*, was released in January 2005.



Resident Fellow **James K. Glassman** hosts Tech Central Station, a website dedicated to technology news, defense, and market intelligence, and he writes a weekly column on policy issues for the Scripps Howard News Service. He is also the chairman of Investors Action, a nonprofit organization he cofounded in 2004 to educate and advance the interests of ordinary Americans with financial investments.



In 2004, **Jack Goldsmith** resigned as assistant U.S. attorney general and accepted positions as a professor at Harvard Law School and at AEI as a visiting scholar. His work at the Institute contributes to the program of research, conferences, and publications on international law and sovereignty that he helped establish in the late 1990s. He is the author of three dozen journal articles and two legal casebooks.



After stints at the Food and Drug Administration and the Centers for Medicare and Medicaid Services, **Scott Gottlieb**, M.D., returned to AEI in 2004 as a resident fellow. A specialist in regulatory reform of the FDA and pharmaceutical pricing, he is a regular contributor to the *British Medical Journal*, and his articles have appeared in numerous and varied outlets, including the *Journal of the American Medical Association*, *New York Times*, *Washington Times*, *Los Angeles Times*, and *Forbes*.

**Vice President for Foreign and
Defense Policy Studies
Danielle Pletka**



**Resident Fellow
Radek Sikorski**



**Henry Wendt Scholar
Nicholas Eberstadt**



**Resident Fellow
Thomas Donnelly**



**Freedom Scholar
Michael A. Ledeen**



**Resident Fellow
Reuel Marc Gerecht**



COUNTERTERRORISM

■ AEI convened experts in March to formulate possible reforms of U.S. homeland security and intelligence efforts. Reuel Marc Gerecht, Representative Jane Harman (D-Calif.), and former CIA director R. James Woolsey examined the controversy over prewar intelligence on Iraq's weapons programs and questioned the structure of U.S. intelligence-gathering.

■ Throughout the year, Fred Thompson guided AEI's Homeland Security Initiative as it held off-the-record dinners for policymakers and leading journalists and scholars. Mr. Thompson also delivered a major policy address in April on terrorism and U.S. involvement in Iraq.

■ Several AEI events in 2004 focused on the process of bringing enemy agents and combatants to justice. AEI adjunct fellows Bradford Berenson and Richard Klingler filed a brief with the Supreme Court and presented their findings in anticipation of the Supreme Court's April arguments on *Al Odab v. United States*, which challenged the federal government's treatment of Guantanamo Bay prisoners. Mr. Berenson and Mr. Klingler, along with David Frum, argued that the Supreme Court should adhere to the traditional rule that enemy fighters captured and held abroad by the military during wartime have no right to challenge their detention in the U.S. legal system.



Resident Fellow Reuel Marc Gerecht; R. James Woolsey, former director of the CIA; and Representative Jane Harman (D-Calif.)

■ These issues were revisited in an April seminar that examined the Supreme Court decisions in *Hamdi v. Rumsfeld* and *Rumsfeld v. Padilla* and the legal issues raised by detaining under military law U.S. citizens who take up arms against the United States. At this event, Mr. Frum, Mr. Berenson, and Mr. Klingler argued that the president has the power as commander in chief to detain and interrogate all enemy fighters, regardless of citizenship.

■ In November, John Yoo and John C. Fortier led a seminar with two law professors and ethicist Jean Bethke Elshstain of the University of Chicago on the moral and practical implications of using torture to extract information from terrorists who might threaten U.S. national interests.

■ In December, Hedieh Mirahmadi joined AEI as a visiting scholar focused on Islamic terrorism in Southeast Asia. Earlier in the year, at a roundtable luncheon organized by Joshua Muravchik, U.S. ambassador to Singapore Frank Lavin elaborated on methods for combating terrorism in the region.

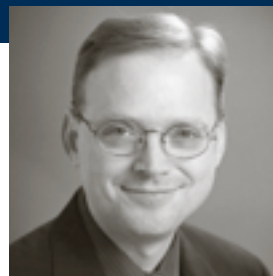
AEI FELLOWS & SCHOLARS



John G. Searle Scholar **Michael S. Greve** writes AEI's *Federalist Outlook*. His books include *Sell Globally, Tax Locally: Sales Tax Reform for the New Economy* (2003); *Real Federalism: Why It Matters, How It Could Happen* (1999); and *The Demise of Environmentalism in American Law* (1996). In 2004, the AEI Press published *Competition Laus in Conflict: Antitrust Jurisdiction in the Global Economy*, which he edited with Richard A. Epstein.



Resident Scholar **Robert W. Hahn** is the director of the AEI-Brookings Joint Center for Regulatory Studies. He is the editor of *Risks, Costs, and Lives Saved: Getting Better Results from Regulation* (1996) and the author of *The Economics and Politics of Climate Change* (1998); *Do Federal Regulations Reduce Mortality?* (2000, with Randall Lutter and W. Kip Viscusi); and *Reviving Regulatory Reform: A Global Perspective* (2001). The AEI Press will publish his next book, *A Defense of Economic Analysis of Regulation*, in early 2005.



Resident Scholar **Kevin A. Hassett** is the director of economic policy studies at AEI and the author of *Bubbleology: The New Science of Stock Market Winners and Losers* (2002); *Dow 36,000* (1999, with James K. Glassman); *Tax Policy and Investment* (1999); and *The Magic Mountain: A Guide to Defining and Using a Budget Surplus* (1999, with R. Glenn Hubbard). He and Mr. Hubbard have also edited two volumes together: *Inequality and Tax Policy* (2001) and *Transition Costs of Fundamental Tax Reform* (2001).



F. K. Weyerhaeuser Fellow **Steven F. Hayward** researches conservation and environmental issues and is the primary contributor to AEI's *Environmental Policy Outlook*. He is the author of the *Index of Leading Environmental Indicators* (ninth edition, 2004) and *The Age of Reagan: The Fall of the Old Liberal Order, 1964-1980* (2001), the first volume of a two-part work. His latest book, *The Real Jimmy Carter*, appeared in 2004.

U.S. FOREIGN AND DEFENSE POLICY

■ Harvard Law School professor Jack Goldsmith came to AEI in 2004 as a visiting scholar specializing in international law and jurisdictional conflicts. He has served in the current administration in the general counsel's office at the Pentagon and as assistant attorney general in the Office of Legal Counsel. In the late 1990s, he worked with AEI to establish the Institute's program of research, conferences, and publications on international law and sovereignty.

■ Throughout 2004, Thomas Donnelly researched the growing gap between the strategic objectives set forth by the Bush administration in the global war on terror and the operational tools at its disposal. He wrote a final report on the subject, to be published by the AEI Press in early 2005, in advance of the Pentagon's 2005 *Quadrennial Defense Review Report*.

■ Throughout 2004, experts critically examined the United Nations through a series of panel discussions moderated by Joshua Muravchik. Events considered America's inability to convince the UN Security Council to endorse military action against Iraq; U.S.-UN cooperation and frictions in post-conflict reconstruction efforts; democracies as catalysts for the restoration of integrity to the UN Human Rights Commission; Israel's special status; the effectiveness of the International Atomic Energy Agency; and the UN oil-for-food scandal. Featured speakers included Jeane J. Kirkpatrick; the U.S. State Department's John R. Bolton and W. Robert Pearson; Thomas R. Pickering, former U.S. ambassador to the United Nations; and Timothy E. Wirth, president of the UN Foundation.

■ In *The Case for Sovereignty: Why the World Should Welcome American Independence* (2004), Jeremy Rabkin defends the concept of sovereignty against common misunderstandings and distortions and shows how the American Founders relied upon sovereignty as the most basic principle of international affairs. Mr. Rabkin argues that allowing international law to take precedence over the Constitution would fundamentally undermine American democracy.



■ Three events examined U.S. public diplomacy efforts worldwide. In June, New Atlantic Initiative panelists attempted to uncover the roots, impulses, and other manifestations of anti-Americanism and how America should respond. In May, a conference featuring Representative Frank Wolf (R-Va.), proposed



John R. Bolton, under secretary of state for arms control and international security



Resident Scholar Joshua Muravchik

solutions, including improvements in U.S. government-sponsored broadcasting, to counter anti-Americanism, particularly in the Arab and Muslim world. In December, Brigadier General Vincent Brooks and Robert Kaplan of *The Atlantic Monthly* discussed U.S. information operations to battle enemy propaganda in Iraq and Afghanistan.

■ In *Democratic Realism: An American Foreign Policy for a Unipolar World* (2004), an essay delivered as the Irving Kristol Lecture at AEI's Annual Dinner, Charles Krauthammer examines four contending schools of American foreign policy: isolationism, liberal internationalism, realism, and democratic globalism. After analyzing the sources and merits of each school, he concludes that a variant of realism and democratic globalism, or *democratic realism*, is best suited to America's position of preeminent power and the challenges of confronting and subduing Arab-Islamic fanaticism.

■ In 2004, AEI's monthly *National Security Outlook*, written by Mr. Donnelly, examined topics such as U.S. strategy in the greater Middle East; the post-Cold War world; Libya's renouncement of its unconventional weapons programs; the "one China" policy and "strategic ambiguity"; U.S. military capability; strategic partnership between the United States and Europe; conservative "realism"; U.S. strategy for a nuclear Iran; and rebasing of U.S. forces abroad.

■ In *Operation Iraqi Freedom: A Strategic Assessment* (2004), Mr. Donnelly argues that the Bush administration charted the correct strategy in Iraq but has failed to match its military means to its strategic ends. Drawing on first-hand research in postwar Iraq, Mr. Donnelly argues that military planning did not fully reflect the administration's policy, with the Pentagon's desire to fight a quick war ultimately undercutting its ability to fight a decisive one.

NEW ATLANTIC INITIATIVE

■ The New Atlantic Initiative (NAI), sponsored by AEI and led by Radek Sikorski, leads a network of European policy research organizations aiming to revitalize transatlantic political, economic, and security institutions and to foster integration of the new democracies of Central and Eastern Europe into those institutions.

■ *European Outlook*, a bimonthly essay devoted to European affairs and their bearing on transatlantic policy issues, debuted in 2004. Authored by Mr. Sikorski and others, issues to date have covered the European Union's expansion; the proposed EU constitution; European defense modernization; and Europe's severe demographic challenges.

■ In 2004, NAI sponsored more than a dozen major conferences and debates on both sides of the Atlantic and held a similar number of policy roundtables with U.S. and foreign leaders. What follows is a thematic sample.

■ In January, Mr. Sikorski returned from a fact-finding trip to Iraq and briefed members of the NATO Parliamentary Assembly on the activities of the multinational force in Iraq. In June, as the NATO summit in Istanbul approached, an NAI seminar featuring Mira R. Ricardel of the U.S. Department of Defense questioned whether the alliance will continue to be important to the United States.



Rafael R. Barak, Embassy of Israel; Zeyno Baran, Nixon Center; Resident Fellow Radek Sikorski; Denis Chaïbi, Yale University; and Stephen Nix, International Republican Institute

■ The most prominent of several events on economic themes were conferences in Brussels on the eve of the EU enlargement, which focused on tax competition, restrictions on military technology transfers, and protectionism in agriculture; a two-day event in Warsaw on U.S. economic successes and their relevance to Europe; and a conference on Turkey's application to join the European Union.

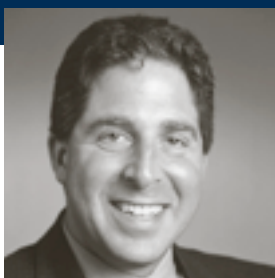
■ NAI events also focused cultural issues—religion, in particular. Janne Matlary, former deputy minister of foreign affairs for Norway, and journalist Christopher Hitchens debated the extent to which religiosity in America and secularism in Europe influence policies on both sides of the Atlantic. Two other events focused on the relationship between the European Union and Christianity.

■ Two events late in the year considered the implications of the controversial presidential election in Ukraine and its implications for the progress of democratic capitalism in lands formerly under Soviet control.

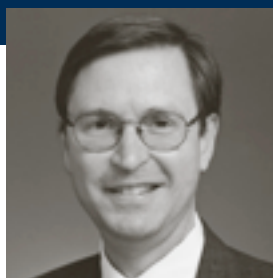
AEI FELLOWS & SCHOLARS



Resident Scholar **Robert B. Helms** is the director of health policy studies at AEI. His research areas include Medicare and Medicaid, private health insurance, and the pharmaceutical industry. He is the editor of several books, including *Health Policy Reform: Competitions and Controls* (1993); *Competitive Strategies in the Pharmaceutical Industry* (1996); and *Medicare in the Twenty-first Century: Seeking Fair and Efficient Reform* (1999), and he is a contributor to AEI's *Health Policy Outlook*.



Frederick M. Hess is a resident scholar and director of education policy studies at AEI. He is the executive editor of *Education Next* and the author of several books, including *Revolution at the Margins: The Impact of Competition on Urban School Systems* (2002) and, most recently, *Common Sense School Reform* (2004). He is the coeditor of two 2004 books: *Leaving No Child Behind? Options for Kids in Failing Schools* (with Chester E. Finn Jr.) and *A Qualified Teacher in Every Classroom?* (with Andrew J. Rotherham and Kate Walsh).



R. Glenn Hubbard, dean of Columbia Business School, is an AEI visiting scholar focusing on tax and budget issues, health care policy, international finance, and monetary policy. He is the editor, with Kevin A. Hassett, of *Inequality and Tax Policy* (2001) and *Transition Costs of Fundamental Tax Reform* (2001) and the author, also with Mr. Hassett, of *The Magic Mountain: A Guide to Defining and Using a Budget Surplus* (1999).



Leon R. Kass, M.D., is AEI's Hertog Fellow and the chairman of the President's Council on Bioethics. He is the author of several books, including *The Beginning of Wisdom: Reading Genesis* (2003); *Life, Liberty, and the Defense of Dignity: The Challenge for Bioethics* (2002); *The Ethics of Human Cloning* (1998, with James Q. Wilson); and *The Hungry Soul: Eating and the Perfecting of Our Nature* (1994).

MIDDLE EAST STUDIES

■ AEI's Arab Democracy Project examines the absence of democracy throughout the Arab world and argues that although Islam is not inherently incompatible with freedom, the growth of radical Islam can continue to keep democracy at bay. The project held a series of meetings in 2004 that featured advocates for democracy and economic freedom in the Arab world.

■ Michael Rubin, editor of the *Middle East Quarterly*, returned to AEI in 2004. After a brief stint as a visiting fellow at the Institute, he spent the past two years as a staff adviser on Iran and Iraq in the Office of the Secretary of Defense. He spent much of 2003 and the early part of 2004 in Iraq detailed to the Coalition Provisional Authority.

■ Several other AEI scholars also visited Iraq in 2004 to conduct on-the-ground research. Karl Zinsmeister was embedded with the 82nd Airborne during the war and returned for a second tour in Fallujah and Baghdad in the spring of 2004, which resulted in his book *Dawn over Baghdad: How the U.S. Military Is Using Bullets and Ballots to Remake Iraq* (2004). Radek Sikorski traveled to Iraq early in the year to assess Polish efforts in the reconstruction of the southern portion of the country. In addition, Joshua Muravchik was flown to Iraq as part of a Pentagon-organized delegation to examine political reconstruction and military operations there. Thomas Donnelly, Reuel Marc Gerecht, and Danielle Pletka have done field research in the region as well.

■ Mr. Gerecht's *The Islamic Paradox: Shiite Clerics, Sunni Fundamentalists, and the Coming of Arab Democracy* (2004) argues that those who have hated the United States most—who have felt the clash of civilizations most painfully—will be our salvation from future 9/11s.

Recep Tayyip Erdogan, prime minister of Turkey



Reza Pahlavi, advocate for Iranian democracy



Ehud Olmert, deputy prime minister of Israel, and AEI executive vice president David Gerson

■ Early in the year, AEI continued to host a series of weekly briefings that took a sober look at Iraq policy challenges as reconstruction efforts unfolded. Mr. Donnelly, Mr. Gerecht, Richard Perle, and Ms. Pletka provided regular commentary.

■ As plans for the June 30 transfer of power moved forward, AEI hosted Rend Rahim, Iraqi ambassador-designate to the United States, on the one-year anniversary of the beginning of the war. Security, terrorism, and economic development have remained central concerns, and several AEI events confronted these issues over a period of months.

■ Mr. Gerecht hosted a June event that turned the spotlight on Iraqi education and how the classroom could be used as a tool for establishing democracy in the region. John Agresto, senior adviser on higher education and scientific research at the Coalition Provisional Authority, revealed his insights on the progress made thus far and goals for the future.

■ As the media frenzy erupted over the Abu Ghraib torture scandal, Michael A. Ledeen organized a seminar that addressed the prison's past history of atrocity and abuse. Panelists noted that much of the controversy surrounding Abu Ghraib made only vague references to the prison's nightmarish past. Seven of these victims, Baghdadi merchants whose right hands were amputated and presented to Saddam as proof of their punishment, came to the United States for medical attention and then spoke about their experiences before returning to Iraq. After the event, the video of the proceedings and another video on the AEI website depicting torture at Abu Ghraib under Saddam Hussein drew tens of thousands of viewers for weeks.

■ A cornerstone of Bush administration foreign policy has been a new commitment to democracy in the Islamic world. In theory, Turkey should be a shining example for that policy, yet following the invasion of Iraq, U.S.-Turkish relations were notably strained. Recep Tayyip Erdogan, prime minister of Turkey, addressed AEI in January on the difficult state of U.S.-Turkish relations.

ASIAN STUDIES

■ Daniel Blumenthal came to AEI in late 2004 from the Office of the Secretary of Defense, where he served as team chief and country director for international security affairs in Asia. He joins AEI's burgeoning Asian Studies Program, which is concerned with the full range of economic and security developments in Asia—and particularly with the emergence of a nuclear North Korea, the “peaceful rise” of the People's Republic of China, and the protection and promotion of free and democratic political institutions throughout the region.

■ In 2004, James R. Lilley released his memoir, *China Hands: Nine Decades of Adventure, Espionage, and Diplomacy in Asia*. The book describes his twenty-five years of service for the CIA in East Asia and his later career at the U.S. State Department as the top-ranking diplomat in Taiwan, ambassador to South Korea, and ambassador to China.

■ In April, Shinzo Abe, secretary-general of the Liberal Democratic Party of Japan, spoke at AEI about the unique relationship between the United States and Japan and urged that the relationship adapt to new threats from terrorism. Once again, John H. Makin organized a meeting between the Japan Economic Foundation and AEI, which is held annually (and occasionally more frequently) in Tokyo or Washington to discuss U.S.-Japan relations.



AEI president Christopher DeMuth and Yu Yunyao, executive vice president of the Chinese Central Party School

■ Nicholas Eberstadt gathered experts to discuss public and private international efforts to aid economic development in North Korea. Hong Soon-young, former minister of foreign affairs and trade of South Korea, delivered a keynote address.

■ Visiting Scholar Gautam Adhikari spent several months at AEI working on a project on expanding bilateral relations between India and the United States based on common commitment to democratic and free-market principles.

■ Two major events considered Taiwan's delicate diplomatic position. At the first, led by Thomas Donnelly, experts considered how the United States should balance its defense of Taiwan's flourishing democracy with its traditional interest in a stable relationship with China. The second event took stock of the Taiwan Relations Act on its twenty-fifth anniversary. Senator Sam Brownback (R.-Kans.) gave the principal address.

■ At a private dinner in June, Hamid Karzai, president of Afghanistan, spoke on preserving stability and enhancing newly established democratic institutions in his country.

AEI FELLOWS & SCHOLARS



Senior Fellow **Jeane J. Kirkpatrick** lectures frequently on U.S. foreign and defense policy, multinational organizations, and European politics. Her many books include *Dictatorship and Double Standards: Rationalism and Reason in Politics* (1982) and *The Withering Away of the Totalitarian State . . . and Other Surprises* (1990).



Resident Scholar **Marvin H. Kosters** studies employment and wage trends and employment effects of antipoverty programs. Mr. Kosters's books include *Wage Levels and Inequality: Measuring and Interpreting the Trends* (1998) and *Closing the Education Achievement Gap: Is Title I Working?* (2003, with Brent D. Mast). He is also the editor of *Financing College Tuition: Government Policies and Educational Priorities* (1999).



Senior Fellow **Irving Kristol** writes about culture, ethics, and religion. He is the founder of *The Public Interest* and *The National Interest*, and his articles have appeared in *The Atlantic Monthly*, the *Wall Street Journal*, *Foreign Affairs*, and *Fortune*. His many essay collections include *Two Cheers for Capitalism* (1978) and *Neoconservatism: The Autobiography of an Idea* (1995).



Desmond Lachman is a resident fellow who researches emerging market economies, their exchange rates, and their arrangements with the international financial institutions. His articles have appeared in numerous publications worldwide, including the *Financial Times* (London), South Africa's *Business Day*, Brazil's *Valor Econômico*, *Venezuela Analítica*, the *Australian Financial Review*, and the *Washington Post*.

AREA STUDIES

■ Leon Aron's U.S.-Russia Working Group brings together policymakers, corporations with long-term investment interests in Russia, journalists, and scholars for discussions of key issues in Russian affairs.

■ After the downing of two civilian airliners and the massacre of schoolchildren in Beslan, Chechnya, Russian president Vladimir Putin announced a radical overhaul of Russia's political system that would end the popular election of governors and independent lawmakers. At a September panel, academic experts debated how the Kremlin should stabilize Chechnya and reform its security strategy for the North Caucasus.

■ Two events focused on implications of the Kremlin's campaign against Mikhail Khodorkovsky and the YUKOS oil company. The first conference examined the impact on the foreign investment climate in Russia; participants included Yegor Gaidar, former prime minister of the Russian Federation, and Nancy Lee, deputy assistant secretary of the U.S. Treasury for Eurasia. In June, Judge Stephen F. Williams of the D.C. Court of Appeals and other panelists focused on Mr. Khodorkovsky's trial and Russia's newly reformed criminal justice system.

■ AEI's quarterly *Russian Outlook*, written by Mr. Aron, analyzes key issues in the economic, social, and political aspects of Russia's transition to democracy. In 2004, topics covered the repercussions of the December 2004 Duma elections, President Putin's lopsided victory in the March presidential election, reform of Russia's pension system, and the demise of communism in Russia.

■ In January, Desmond Lachman and Mark Falcoff organized an event assessing Luis Inácio "Lula" da Silva's political

Charles Snyder, U.S. assistant secretary of state for African affairs



**Resident Scholar Emeritus
Mark Falcoff**



Resident Scholar Leon Aron

and economic achievements during his first year as president of Brazil. A February event also arranged by the two scholars focused on the record of another Latin American president, Venezuela's Hugo Chávez, and the troubling consequences of political instability in a major supplier of oil to the United States.

■ AEI's monthly *Latin American Outlook* suspended publication when Mr. Falcoff retired in the fall. Topics it addressed in 2004 included Argentina's improving economy, Venezuela's referendum on President Chávez, civil conflict in Colombia, the collapse of Haitian president Jean-Bertrand Aristide's government, the March presidential election in El Salvador, social and political upheaval in Bolivia, the high expectations in Brazil for President da Silva, and a broad look at the future of Latin America.

■ Thomas Donnelly organized an all-day April conference that spotlighted Africa as a region too long dismissed as irrelevant to U.S. national security. Assistant Secretary of State for African Affairs Charles Snyder, General Charles Wald, and Deputy Assistant Secretary of Defense Michael Westphal were among the participants. They discussed the brewing of al Qaeda cells in several countries, disturbing signs of radicalization in Africa's Muslim population, and the growing importance of African oil, which already accounts for 15 percent of U.S. imports and is expected to become even more important in the decade ahead.

■ Representative Frank Wolf (R-Va.) and other panelists at an all-day conference addressed the humanitarian crisis in the Sudan. Participants considered the government-sponsored ethnic cleansing unfolding in Darfur, threats from the United States and the international community to enforce sanctions, and warnings from Sudanese hardliners that foreign intervention would constitute an attack on Islam.

■ In April, AEI hosted Roger Noriega, assistant secretary of state for the Western Hemisphere, for a foreign policy briefing on Haiti's future and U.S. involvement. Mr. Noriega recounted the fall of President Aristide's government and cautioned against interference by the United States and the international community.

SOCIAL AND POLITICAL STUDIES

AEI's research is informed by the understanding that freedom and prosperity depend on healthy social and political institutions. The freedom that Americans enjoy is defined by laws that limit the reach of government, but also by a political culture that gives life to the laws and to the principles they embody. Under limited government, most of the work of improving people's lives is done by families, schools, religious congregations, and voluntary organizations.

AEI scholars study constitutional law, public opinion, political campaigns and governance, education, the underclass, the moral and social implications of capitalism, and the relation between religion and ordered liberty.



"Ben Wattenberg's readable and compelling book challenges policymakers to get ahead of the demographic curve and think outside of a shrinking population box. Behind the social stability and economic prosperity Americans have come to count on are assumptions about a growing world population—assumptions this book forcefully questions. We can adapt to, and ultimately benefit from, these new trends, but only if we better prepare for them."

—SENATOR JOSEPH LIEBERMAN (D-Conn.)

"The Right has become a thinking party, with rich intellectual resources, that is simultaneously dead set against political elitism and cultural snobbery . . . and the Left has come to dominate among the overclass and underclass that bracket the conservative middle. As a result, the old way of thinking about U.S. politics—little-guy Democrats versus wealthy Republicans—is about as accurate and relevant today as a 1930 weather forecast."

—KARL ZINSMEISTER

AEI FELLOWS & SCHOLARS



Resident Scholar **Michael A. Ledeen** holds AEI's Freedom Chair. His books include *The War against the Terror Masters* (2002); *Perilous Statecraft: An Insider's Account of the Iran-Contra Affair* (1988); *Freedom Betrayed: How America Led a Global Democratic Revolution, Won the Cold War, and Walked Away* (1996); *Machiavelli on Modern Leadership: Why Machiavelli's Iron Rules Are As Timely and Important Today As Five Centuries Ago* (1999); and *Tocqueville on American Character* (2000).



Senior Fellow **James R. Lilley** writes on political and security developments in East Asia. He has edited *Beyond MFN: Trade with China and American Interests* (1994, with Wendell L. Wilkie II); *Crisis in the Taiwan Strait* (1997, with Chuck Downs); and *China's Military Faces the Future* (1999, with David Shambaugh). His memoir, *China Hands: Nine Decades of Adventure, Espionage, and Diplomacy in Asia*, appeared in 2004 and describes his family's service in Asia.



Visiting Scholar **Lawrence B. Lindsey** is the author of *Economic Puppetmasters: Lessons from the Halls of Power* (1999) and *The Growth Experiment: How the New Tax Policy Is Transforming the U.S. Economy* (1990). His articles have appeared in publications such as the *Wall Street Journal*, the *Times* and *Financial Times* of London, *USA Today*, and *Forbes*.



Resident Scholar **John R. Lott Jr.** researches crime and gun control, voting and legislative behavior, and civil liability. He is the author of *The Bias against Guns: Why Almost Everything You've Heard about Gun Control Is Wrong* (2003); *More Guns, Less Crime: Understanding Crime and Gun Control Laws* (second edition, 2000); and numerous articles in such publications as the *American Economic Review*, the *Journal of Political Economy*, and the *New York Times*.

**John G. Searle Scholar
Michael S. Greve**



**Resident Fellow
Karlyn H. Bowman**



**W. H. Brady Scholar
Charles Murray**



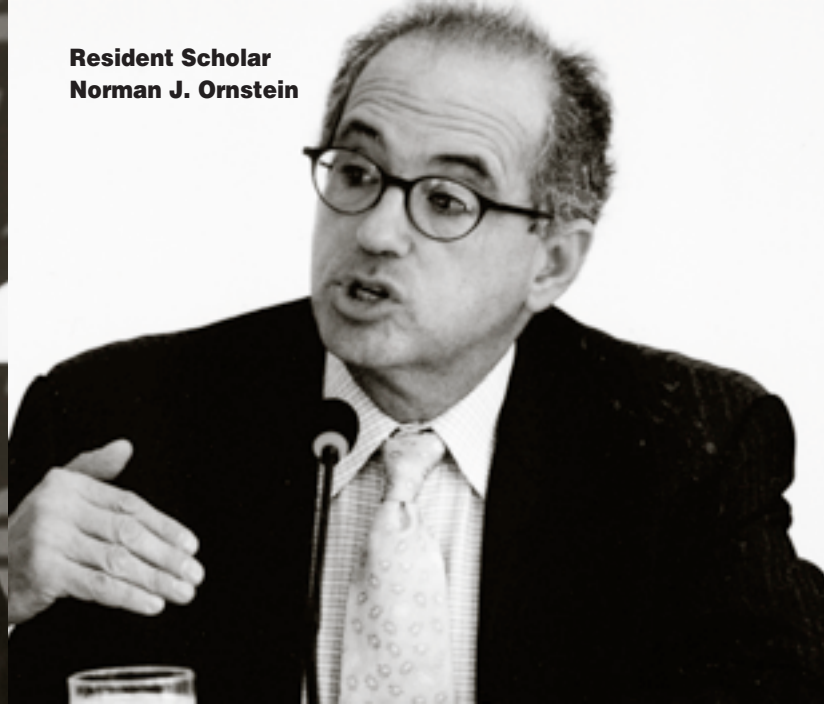
**Resident Scholar
Frederick M. Hess**



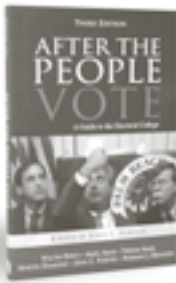
**Resident Fellow
David Frum**



**Resident Scholar
Norman J. Ornstein**



POLITICAL STUDIES



Senior Fellow Newt Gingrich

■ In the third edition of *After the People Vote: A Guide to the Electoral College* (2004), John C. Fortier and Norman J. Ornstein contribute essays on disputed past elections, including the controversial 2000 election, and Walter Berns debates the continuing value of the electoral college with law professors Akhil and Vikram Amar.

■ Reprising a series of events held in the previous presidential campaign, Mr. Ornstein, Mr. Fortier, and Thomas E. Mann of the Brookings Institution organized events in conjunction with the Democratic and Republican Party conventions on how the parties' presidential candidates would govern if elected (or reelected). They held two more such events in Washington shortly before the election. Each event featured a panel with officials who had worked closely with the candidate—for instance, Senator John Cornyn (R-Tex.) and Senator Jon Kyl (R-Ariz.) discussed their dealings with President Bush—as well as reporters covering the candidate's campaign and presidential scholars.

■ The Continuity of Government Commission, a joint project of AEI and the Brookings Institution headquartered at AEI, makes recommendations for ensuring that U.S. governmental institutions can continue to function in the event of a catastrophic attack. Mr. Ornstein and Mr. Mann are senior counselors to the project, and Mr. Fortier serves as executive director. In 2004, the project focused on the challenges

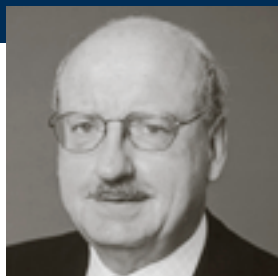
posed by the possibility of a terrorist attack disrupting U.S. elections.

■ Debate persists over exactly what went wrong in Florida in the 2000 election and whether electronic voting machines will solve problems with older voting mechanisms or merely trade one set of vulnerabilities for another. A June conference featured experts in charge of instituting the new voting machines, academics that have studied these issues, and those responsible for the media recounts.

■ The Contract with America, adopted in 1995 by the Republican majority of the 104th Congress, aimed to “restore the bonds of trust between the people and their elected representatives.” A September panel organized by Newt Gingrich on the tenth anniversary of the contract examined its impact on public policy and reform over the last decade, as well as its lasting significance. Mr. Gingrich's latest book, released in early 2005, is *Winning the Future: A 21st Century Contract with America*.

■ A January forum at AEI provided an opportunity for key policy advisers to Democratic presidential candidates to critique President Bush's economic policies and describe why each believed his or her candidate's policies offered a more compelling alternative.

AEI FELLOWS & SCHOLARS



Visiting Scholar **John H. Makin**, who writes the Institute's monthly *Economic Outlook*, examines tax and budget issues, monetary policy, international finance, and U.S. economic relations with Japan and China. His books include *Debt and Taxes: How America Got into Its Budget Mess and What to Do about It* (1994, with Norman J. Ornstein) and *Trade Policy and U.S. Competitiveness* (1987, edited with Claude E. Barfield).



Visiting Scholar **Allan H. Meltzer** is the Allan H. Meltzer University Professor of Political Economy and Public Policy at Carnegie Mellon University. His research addresses international finance and monetary policy. Mr. Meltzer's books include *Money and the Economy: Issues in Monetary Analysis* (1993, with Karl Brunner); *Money, Credit, and Policy* (1995); and the award-winning tome *A History of the Federal Reserve System, Volume I: 1913–1951* (2002).



Hedieh Mirahmadi, a specialist in Islamic terrorism in Southeast Asia and domestic terrorist networks, joined AEI in late 2004 as a visiting scholar. The executive director of the World Organization for Resource Development and Education, Ms. Mirahmadi has served as a U.S. delegate to the UN Conference on Human Rights in Geneva. Her work at AEI is centered on Islamic extremist movements and counterterrorism in Southeast Asia.



Resident Scholar **Joshua Muravchik** is the author of *Heaven on Earth: The Rise and Fall of Socialism* (2002); *The Imperative of American Leadership: A Challenge to Neo-Isolationism* (1996); *Exporting Democracy: Fulfilling America's Destiny* (1991); and *The Uncertain Crusade: Jimmy Carter and the Dilemmas of Human Rights Policy* (1986). His essays and reviews frequently appear in *Commentary* and the *New York Times*. In 2004, he wrote a study of the United Nations that will be published in 2005.

EDUCATION POLICY

■ *Common Sense School Reform* (2004), by Frederick M. Hess, presents a comprehensive and coherent approach to the challenge of improving U.S. schools. The author argues that five integrated principles are needed: increased accountability of students, teachers, and administrators; more choice and flexibility; greater openness in teacher recruitment; better training of administrators in management and leadership; and enhanced use of technology to aid students, teachers, and management.

■ The No Child Left Behind Act (NCLB) is arguably the signal domestic policy initiative of the Bush administration and the most ambitious piece of federal education legislation in at least thirty-five years. The law mandates a testing regime to force schools to continually improve student performance, and it uses school choice and additional learning resources as incentives to improve low-performing schools and districts. *Leaving No Child Behind? Options for Kids in Failing Schools* (2004), edited by Mr. Hess and Chester E. Finn Jr., enlists premier education researchers to evaluate the potential and the problems of NCLB in its initial stages of implementation. *A Qualified Teacher in Every Classroom? Appraising Old Answers and New Ideas* (2004), edited by Mr. Hess, Andrew J. Rotherham, and Kate Walsh, investigates a specific provision of NCLB: a mandate decreeing that states must ensure that every public school classroom is staffed by a highly qualified teacher, which gives new urgency to debates over teacher recruitment, preparation, and induction.



■ In *Going Broke by Degree: Why College Costs So Much* (2004), Richard Vedder of Ohio University examines the causes of the college tuition crisis. He warns that perennial tuition hikes above the rate of inflation are not sustainable and explores ways to reverse this alarming cycle. Mr. Vedder's research demonstrates that America's universities have become less productive, less efficient, and more likely to use tuition money and state and federal grants to subsidize noninstructional activities. These factors combine



Rod Paige, U.S. secretary of education



Alan Bersin, superintendent of the San Diego School District

to produce dramatic increases in tuition, making it more difficult for Americans to afford college.

■ In 1954, the Supreme Court struck down the principle of "separate but equal" in *Brown v. Topeka Board of Education*. To commemorate the fiftieth anniversary of this landmark decision, AEI held a January conference at which Secretary of Education Rod Paige commented on the current state of American public education, the promise of NCLB, and the work that remains to be done to improve the quality and inclusiveness of America's public schools.

■ At a May seminar, Lynne V. Cheney, Jeffrey Mirel of the University of Michigan, and William Galston of the University of Maryland debated the extent to which students should be taught about the new threat posed by international terrorists and considered the lessons to be learned from attempts to reinvigorate civic education in earlier times of international conflict.

■ A May conference organized by the AEI-Brookings Joint Center for Regulatory Studies and Common Good examined how public school rules and procedures intended to create fairness in fact often do harm in practice. Senator Zell Miller (D-Ga.) delivered the keynote speech.

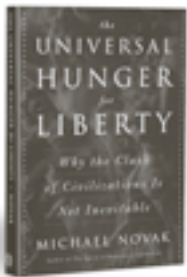
■ As inner-city school districts continue to struggle, reformers are increasingly vocal about the need for more accountable governance. A much-discussed proposal involves giving mayors control of city schools by allowing them to appoint school board members. In June, Jeffrey Henig of Teachers College at Columbia University and Wilbur Rich of Wellesley College presented evidence from their book *Mayors in the Middle*, which examines the politics and impact of the mayoral takeover of schools. Fritz Edelstein of the U.S. Conference of Mayors and Peggy Cooper Cafritz of the D.C. Board of Education offered comments.

■ Speakers at an October event, including Mr. Finn, Mr. Hess, and Robert Lerner, commissioner of the National Center for Education Statistics, assessed the adequacy, accuracy, and utility of data used to track school performance and how the federal role in gathering and disseminating statistics could be improved.

SOCIAL AND CULTURAL ISSUES

■ Ben J. Wattenberg examines the implications of depopulation for global economics and geopolitics in *Fewer: How the New Demography of Depopulation Will Shape Our Future* (2004). He observes that over the next few decades, world fertility levels are projected to continue a dramatic decline, leading to a deep reduction in previously expected levels of world population and momentous consequences.

■ In conjunction with the U.S. Commerce Department, Douglas J. Besharov and Nicholas Eberstadt initiated a project in 2004 designed to examine the measurement and true definition of poverty by assessing alternative measures of income, consumption, and other indicators of material well-being.



■ *The Universal Hunger for Liberty: Why the Clash of Civilizations Is Not Inevitable* (2004), by Michael Novak, traces the history of the West's interaction with the civilization of Islam. Mr. Novak argues that Islam, like Judaism and Christianity, contains grounds for political, economic, and religious liberty, which are the necessary basis of a more harmonious world order.



**George Frederick Jewett Scholar
Michael Novak**

■ *Health and the Income Inequality Hypothesis: A Doctrine in Search of Data* (2004), by Mr. Eberstadt and Sally Satel, refutes recent studies purporting to show that inequality in income—not poverty per se—is bad for people's health. The authors argue that the inequality hypothesis relies upon limited or unrepresentative data, hazily expounded causality, elementary econometric fallacies, and results that cannot be replicated.

■ Dr. Satel and Adjunct Scholar Jon Entine led a conference in November on the social policy implications of genetic research into the medical meaning and significance of race.

■ The federal assault weapons ban has been a cornerstone of the gun control movement for the last decade. Charles Murray moderated a September debate between John R. Lott Jr. and gun safety advocate James P. Kessler on the role of the ban in crime reduction.

■ As chairman of the President's Council on Bioethics, Leon R. Kass, M.D., edited book-length reports in 2004 on the ethics of reproductive technologies and stem cell research.

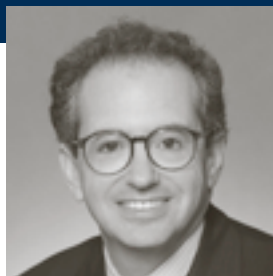
AEI FELLOWS & SCHOLARS



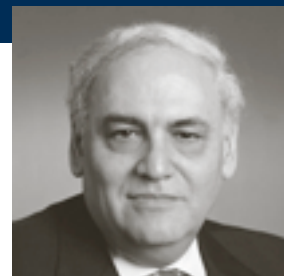
W. H. Brady Scholar **Charles Murray** wrote two of the most important books on social policy of the past two decades: *Losing Ground: American Social Policy, 1950–1980* (1984) and, with Richard J. Herrnstein, *The Bell Curve: Intelligence and Class Structure in American Life* (1994). His latest book, *Human Accomplishment: The Pursuit of Excellence in the Arts and Sciences, 800 B.C. to 1950*, appeared in 2003.



Michael Novak is the George Frederick Jewett Scholar in Religion, Philosophy, and Public Policy. The most recent of his nearly four-dozen books are *The Universal Hunger for Liberty: Why the Clash of Civilizations Is Not Inevitable* (2004); *On Two Wings: Humble Faith and Common Sense at the American Founding* (2001); *God's Country: Taking the Declaration Seriously* (2000); and *On Cultivating Liberty: Reflections on Moral Ecology* (1999).



Resident Scholar **Norman J. Ornstein** is the author or editor of several books on American politics and political institutions, including *The Permanent Campaign and Its Future* (2000; Thomas E. Mann, coeditor). He is a senior counselor to the Continuity of Government Commission and a columnist for *Roll Call*.



Resident Fellow **Richard Perle** is a leading authority on national security, military requirements, arms proliferation, and the Middle East. He is the author of *An End to Evil: How to Win the War on Terror* (2003, with David Frum) and *Hard Line* (1992), a political novel, and also the editor of *Reshaping Western Security* (1991).

LEGAL AND CONSTITUTIONAL STUDIES



■ In *Competition Laws in Conflict: Antitrust Jurisdiction in the Global Economy* (2004), legal scholars, economists, federal judges, and other government officials analyze the profusion of antitrust concerns brought on by globalization. In their introduction and conclusion, editors Michael S. Greve and Richard A. Epstein argue that a system in which each affected jurisdiction gets to apply its own competition rules to crossborder transactions will entail grave political conflicts and intolerable costs.

■ Under the leadership of Mr. Greve, the Institute's John G. Searle Scholar, AEI's Federalism Project promotes a genuine, vibrant federalism, one that restricts the national government's powers and compels the states to compete for business activity and for their citizens' talents, assets, and allegiance. The flagship publication of the Federalism Project is *Federalist Outlook*, authored by Mr. Greve. Issues in 2004 covered a potential constitutional amendment concerning same-sex marriage, Supreme Court decisions in the 2003–2004 term on international disputes over jurisdiction, and the new opportunity for liability reform created by the 2004 federal election results.

■ The Federalism Project and the political science department of Boston College organized a series of five workshops on the political economy of federalism. These events brought scholars and policymakers together to discuss topics such as fiscal federalism, judicial federalism, moral federalism, and political competition between states and the federal government. The Federalism Project also held seminars on the Supreme Court term, the movement to make New Hampshire a center of limited government, and federal preemption of state law, as well as a conference on interpretation of the commerce clause as it applies to medical marijuana and interstate shipment of wines.

■ AEI's Liability Project devotes its energies and resources to examining the institutions, procedures, and political economy of contemporary liability law. It will begin to publish a series of monographs through the AEI Press early in 2005. The project's 2004 events are described below.

■ A January conference explored the controversy over revelations that arrangements between several mutual fund managers and large investors allow certain customers to engage in market timing and late trading.

■ Two seminars focused on attorney fees in class-action lawsuits. Critics of the U.S. tort

system often argue that the contingency fee system provides incentives for excessive litigation. In February, Theodore Eisenberg of Cornell Law School discussed a study that he and Geoffrey Miller of New York University Law School conducted, which found that, contrary to conventional wisdom, attorneys' fees in class-action settlements have not been growing rapidly over the past decade. The authors' study also suggests that the general assumption that attorneys receive about one-third of the amount awarded to plaintiffs in class actions greatly exaggerates actual fees. In September, Alexander Tabarrok of George Mason Law School presented research conducted with Eric Helland of Claremont-McKenna College that tackled the capping of contingency fees. While that approach is one of the most popular reform ideas, their research indicates that rather than ameliorating the liability crisis, the caps increase the number of frivolous lawsuits.

■ A March event looked at the harm shareholder lawsuits do to firms and shareholders and examined evidence that such cases do not significantly deter fraudulent or negligent behavior on the part of executives.

■ Previously barred by workers' compensation laws from bringing suits against manufacturers of defective products, workers can now sue for recovery from job injuries caused by these products. Research presented by Alexander Volokh of Harvard University at a May seminar indicates that workers pay for this option in the form of reduced wages and highlights the need to consider the impact of liability system reforms throughout the economy before implementing them.

Resident Scholar Walter Berns



Richard A. Epstein, University of Chicago Law School



OUTREACH

All the research described in the preceding pages is intended to have a practical effect—to achieve more sensible and effective public policies. AEI's marketing, editorial, public affairs, and conference staffs work energetically to maximize attention to the Institute's research output, particularly among those in a position to act upon the research and those concerned with the topics it addresses.

The following pages highlight various means by which AEI disseminates the ideas and findings of its scholars and otherwise contributes to public-policy discourse. In addition, AEI distributes a monthly newsletter, executive summaries of its books and conferences, and reprints of the best general-interest articles its scholars publish. The



Institute also publishes a monthly report on developments in the U.S. and world economies and one on national security issues; a bimonthly report on environmental policy and one on health policy; a quarterly report on Russia's transition to democratic capitalism; and several reports each year on issues germane to federalism. In 2004, a bimonthly report on European affairs and a monthly report on financial services debuted; in 2005, a

bimonthly *Asian Outlook* will follow. The Institute continues to expand its program of notifying thousands of AEI followers about its latest activities through biweekly and daily e-mails and periodic e-mail updates on its work in specific policy areas.

AEI FELLOWS & SCHOLARS



Danielle Pletka is vice president for foreign and defense policy studies at AEI. Her research focuses on the Middle East, South Asia, terrorism, and weapons proliferation. Her articles have appeared in *Insight*, the *Jerusalem Post*, the *Dallas Morning News*, *USA Today*, the *New York Times*, and the *Los Angeles Times*.



Alex J. Pollock joined AEI in 2004 as a resident fellow researching financial markets and government-sponsored enterprises. Previously he served as president and chief executive officer of the Federal Home Loan Bank of Chicago. His writings have appeared in the *Wall Street Journal* and *Barron's* and in a variety of industry publications, including *American Banker*, *National Mortgage News*, and *Housing Finance International*. He is a regular contributor to AEI's monthly *Financial Services Outlook*.



Visiting Fellow **Sarath Rajapatirana** studies international trade patterns and policies in the developing world. His most recent books are *The Trade Policies of Developing Countries: Recent Reforms and New Challenges* (2000); *Liberalization and Industrial Transformation: Sri Lanka in International Perspective* (2000, with Prema-chandra Athukorala); *Trade Policies in Latin America and the Caribbean: Priorities, Progress, and Prospects* (1997); and *Unshackling the Private Sector: A Latin American Story* (1995, with Paul Holden).



Michael Rubin returned to AEI in 2004 as a resident scholar focusing on Middle East policy, after spending two years as a staff adviser on Iran and Iraq in the Office of the Secretary of Defense, including the better part of a year in Iraq detailed to the Coalition Provisional Authority. Mr. Rubin has been a lecturer at Yale University, Hebrew University, and three different universities in northern Iraq. He is the editor of the *Middle East Quarterly* and the author of *Into the Shadows: Radical Vigilantes in Khatami's Iran* (2001).

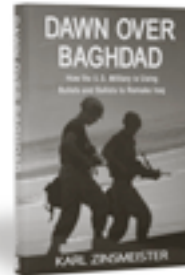
THE AMERICAN ENTERPRISE

■ In a fiercely competitive sector of publishing, AEI's acclaimed magazine of politics, business, and culture, *The American Enterprise*, continues to reach new heights in circulation and influence.

■ The core of each issue of the magazine is a series of articles on a single theme. Different issues in 2004 addressed modern-day warriors and generals; the biotechnology revolution and its effects on social and economic issues; guerrilla warfare in Iraq and media misconceptions of the progress made in the region; global capitalism; the rise of Middle America as an area of migration; American national unity and the assimilation of immigrants; the Democratic Party and the 2004 presidential election; and space exploration.

■ Every issue of *The American Enterprise* contains an interview with a leading figure in American life or an occasional foreign eminence. In the past year, those interviewed included historian and classicist Victor Davis Hanson; Dana Gioia, chairman of the National Endowment for the Arts; baseball statistics guru Bill James; FedEx founder Frederick Smith; Colorado governor Bill Owens; economist and man of letters Thomas Sowell; John O'Sullivan, editor of *The National Interest* and former adviser to British prime minister Margaret Thatcher; and physicist and futurist Freeman Dyson.

■ Editor in Chief Karl Zinsmeister and his staff enlist prominent writers and political figures to write for the magazine alongside AEI scholars. Contributors in 2004 included *U.S. News & World Report* journalist Michael Barone on hard versus soft America and on American



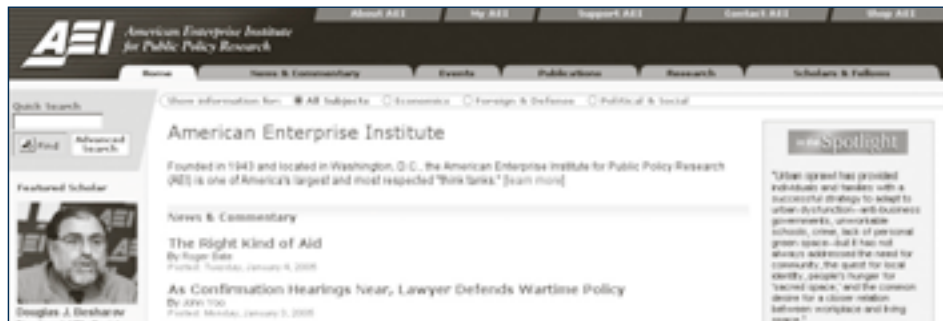
politics; Senator Zell Miller (D-Ga.) on conservative Democrats; FDA deputy commissioner Lester Crawford on genetically modified food products; *The New Republic* senior editor Gregg Easterbrook on new challenges facing bioethics; Greenspirit Strategies chairman and chief scientist Patrick Moore on environmentalism and biotech progress; and former Christian Coalition frontman Ralph Reed on a divided America.

■ As a follow-up to his 2003 book *Boots on the Ground: A Month with the 82nd Airborne in the Battle for Iraq*, Mr. Zinsmeister presented an eyewitness account of his second tour as a reporter embedded in Fallujah and Baghdad in the April/May issue. After spending time with U.S. soldiers in the Sunni Triangle in early 2004, his coverage provides direct polling of Iraqis and dramatic reporting on combat raids, interrogations, daily diplomacy, and reconstruction heroics. A fuller account is available in his book *Dawn over Baghdad: How the U.S. Military Is Using Bullets and Ballots to Remake Iraq* (2004). In a September briefing at AEI, Mr. Zinsmeister presented a slide-illustrated talk on the soldiers representing the United States in today's fights in Iraq, Afghanistan, and elsewhere and their backgrounds and motivations. The talk also chronicled the guerrilla war and reconstruction phase—based on firsthand observations of U.S. combat troops—on the streets of Iraq.

From the pages of *The American Enterprise*



WWW.AEI.ORG



■ An indispensable tool for informing people about the Institute's work is the AEI website at www.aei.org. As this report goes to press, the new website is on a pace to have 3.5 million external visits and more than 16.5 million external page viewings in 2004. By the end of the year, AEI.org and the Institute's various other websites were collectively drawing 500,000 outside visitors per month.

■ One of AEI's most popular web offerings in 2004 was a video of torture in Iraqi prisons under Saddam Hussein. The footage provided some context to the Abu Ghraib prison scandal and attracted more than 140,000 visitors to AEI.org.

■ After a major overhaul the previous year, in 2004 AEI continued to expand the range of its content and to refine the site's design based on user feedback and changing constituent needs. The "Scholars & Fellows" section of the website was improved by the simplification of the menu for finding a scholar by research area, the expansion of each scholar's listing of articles to include the bibliographic information of items that are not fully available online, and a more informative printer-friendly version of each scholar's main page.

■ AEI's Associates Program, an individual donor initiative, was given a boost by sprucing up the appearance of its web page, increasing the selection of free books that new

donors could choose from as their gift, and advertising the program in other areas of the site.

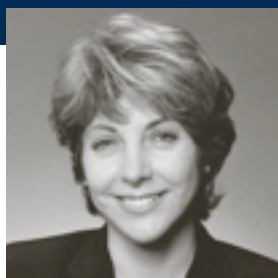
■ An enlarged section for books now contains rescanned images of nearly every volume, tables of contents for the larger books, and a partnership with the Amazon Associates program to receive referral fees for visitors sent to Amazon.com for book purchases.

■ An "Also from the Author" highlight box on writings by AEI scholars was added in 2004. This box displays the scholar's three most recent short publications and most recent book.

■ The "My AEI" feature allows frequent visitors to tailor the site to reflect their interests in a specific policy issue or the work of an individual scholar. "My AEI" also allows the Institute to track user interests and activity on the site.

■ Individual AEI research projects have the ability to expand their sections of the site while maintaining a look consistent with AEI's homepage. For example, the New Atlantic Initiative subsite continues to offer extensive information about upcoming and past NAI events, as well as a constantly updated database of articles and other commentary.

AEI FELLOWS & SCHOLARS



Sally Satel, M.D., is a resident scholar at AEI and a practicing psychiatrist. Dr. Satel is the author of *Health and the Income Inequality Hypothesis: A Doctrine in Search of Data* (2004, with Nicholas Eberstadt); *PC, M.D.: How Political Correctness Is Corrupting Medicine* (2000); and *Drug Treatment: The Case for Coercion* (1999). Her essays have appeared in medical journals, as well as in *Commentary*, *Forbes*, *The New Republic*, the *New York Times*, and the *Wall Street Journal*.



Joel Schwartz, the author of *No Way Back: Why Air Pollution Will Continue to Decline* (2003), became a visiting fellow in 2004. During the year, his projects included work on air pollution, transportation, and chemical risks; he wrote frequently for Tech Central Station and contributed two essays to AEI's bimonthly *Environmental Policy Outlook*.



Resident Scholar **J. Gregory Sidak**, a specialist in regulatory and antitrust policy concerning network industries, is the editor of the *Journal of Competition Law and Economics*, set to debut in 2005 from Oxford University Press. His books include *Deregulatory Takings and the Regulatory Contract: The Competitive Transformation of Network Industries in the United States* (1997, with Daniel F. Spulber) and *Foreign Investment in American Telecommunications* (1997).



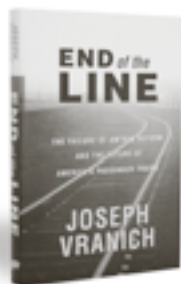
Resident Fellow **Radek Sikorski** heads the New Atlantic Initiative, an international nonpartisan organization sponsored by AEI and dedicated to revitalizing and expanding the Atlantic community of democracies. His research focuses on Eastern Europe, NATO, missile defense, and Afghanistan. Mr. Sikorski oversees and frequently writes for AEI's bimonthly *European Outlook*, and he is the author of *Russia's Afghan War* (1987); *Dust of the Saints: A Journey to Herat in Time of War* (1989); and *Full Circle: A Homecoming to Free Poland* (1997).

THE AEI PRESS

■ No aspect of AEI's contribution to public policy is more important than its book publishing. The AEI Press produces volumes by leading policymakers and scholars on economics, foreign affairs, politics, and social issues. The following is a selection of highlights from among the press's dozen books and dozen monographs released in 2004.

■ *The Case for Sovereignty: Why the World Should Welcome American Independence*, by Jeremy Rabkin of Cornell University, defends the concept of sovereignty against common misunderstandings and distortions, and it shows how the American Founders (and subsequent generations of U.S. statesmen) relied upon sovereignty as the most basic principle of international affairs.

■ In *Going Broke by Degree: Why College Costs Too Much*, economist Richard Vedder demonstrates that America's universities have become less productive, less efficient, and more likely to use tuition money and state and federal grants to subsidize noninstructional activities such as athletics. These factors combine to produce dramatic hikes in tuition, making it more difficult for Americans to afford college.



■ *End of the Line: The Failure of Amtrak Reform and the Future of America's Passenger Trains* (2004), by Joseph Vranich, addresses myths and fallacies about Amtrak, exposing how the railroad is not as essential to mobility as it claims. In addition, the book chronicles the deficit-ridden train service's threats to shut down passenger railroads, including many commuter trains that operate on its lines, unless Congress increases subsidies.

■ *Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks: Why and How*, by Peter J. Wallison, Thomas H. Stanton, and Bert Ely, represents the culmination of years of research by Mr. Wallison on government-sponsored enterprises. The authors demonstrate that it is possible to cut the ties between the government and the



GSEs without disrupting the current system of residential mortgage finance. In addition, they find that it would be possible to obtain lower mortgage rates than those currently offered by Fannie and Freddie.

■ Two AEI Press offerings in 2004 drew on in-country research to discuss key aspects of the U.S. involvement in Iraq. In *Operation Iraq Freedom: A Strategic Assessment* (2004), Thomas Donnelly argues that the Bush administration charted the correct strategy in Iraq but has failed to match its military means to its strategic ends and that the Pentagon's desire to fight a quick war ultimately undercut its ability to fight a decisive war. *The Islamic Paradox*, by Reuel Marc Gerecht, assesses the ethnic and religious divisions in the country and concludes that having Muslim fundamentalists compete for votes and the responsibilities of governance will change the political landscape of the Middle East.

■ In the third edition of *After the People Vote: A Guide to the Electoral College*, edited by John C. Fortier, AEI's Walter Berns and Norman J. Ornstein and law professors Akhil and Vikram Amar use examples from the controversial 2000 election and other disputed elections to explain how the electoral college works and to debate whether it continues to be choiceworthy.

■ *Competition Laws in Conflict: Antitrust Jurisdiction in the Global Economy* (2004), edited by Michael S. Greve and Richard A. Epstein, addresses the antitrust proliferation brought on by globalization. A system in which each affected jurisdiction gets to apply its own competition rules to those transactions poses a danger of grave political conflicts and intolerable costs for producers, who must comply with the often conflicting demands of multiple jurisdictions. Judges, leading scholars, and other experts explore routes to a new and better institutional design for global antitrust in the national and international contexts.

■ The AEI Press concluded a series of six monographs on negotiations among member-countries of the World Trade Organization to extend the General Agreement on Trade in Services. The final two studies, released in 2004, were *Trade Liberalization in Aviation Services: Can the Doha Round Free Flight?* (2004), by Brian S. Hindley, and *The Audiovisual Services Sector in the GATS Negotiations* (2004), by Patrick A. Messerlin, Stephen E. Siwek, and Emmanuel Cocq.

ACADEMIC RELATIONS

■ AEI has long served as a bridge between academia on the one hand and government and the business community on the other. Particularly through its publications and conferences, the Institute has sought to make accessible to those in government and industry the best academic research with policy implications.

■ AEI maintains an eleven-member Council of Academic Advisers, led by political scientist James Q. Wilson of Pepperdine University. (For a complete listing, see the inside of the front cover.) The council advises AEI's president on the Institute's research agenda, publications, and appointments, and each year it selects the recipient of the Irving Kristol Award.

■ AEI internships provide undergraduate and graduate students with the opportunity to work with renowned scholars and to apply academic learning to public policy issues. In the past year, the Institute has hosted 154 interns drawn from seventy-nine colleges and universities and nine countries.

■ Nearly one hundred policy experts at universities across the United States are affiliated with AEI as adjunct scholars. In addition, current AEI scholars hold positions at Berkeley, Boston College, Carnegie Mellon, Chicago, Columbia, Georgetown, Harvard, Maryland, New York,



James Q. Wilson, Pepperdine University



Niall Ferguson, New York University's Stern School of Business

North Carolina (Chapel Hill), Pennsylvania, Syracuse, and Yale. R. Glenn Hubbard also serves as dean of Columbia University's Graduate School of Business.

■ In 2004, Norman J. Ornstein was named a fellow of the American Academy of Arts and Sciences, whose members are leaders in scholarship, business, the arts, and public affairs. Founded in 1780 by John Adams, James Bowdoin, John Hancock, and other scholar-patriots, the academy hopes "to cultivate every art and science which may tend to advance the interest, honor, dignity, and happiness of a free, independent, and virtuous people."

■ The Social Science Research Network (SSRN) is the leading Internet site in the social sciences. Two AEI scholars, John R. Lott Jr. and J. Gregory Sidak, consistently rank near the top of the SSRN's Top Authors index, which ranks scholars by the number of times their papers are downloaded. In 2004, Mr. Lott was ranked No. 5 and Mr. Sidak No. 30 among the SSRN's 42,000 authors—Mr. Lott was first among all economists outside the field of corporate finance, and Mr. Sidak was fifth among legal scholars.

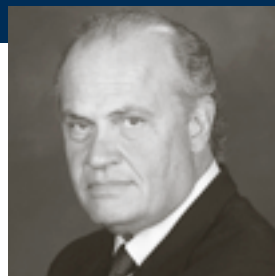
AEI FELLOWS & SCHOLARS



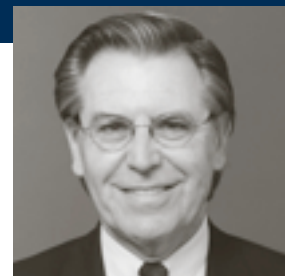
Resident scholar **Christina Hoff Sommers** is a resident scholar at AEI and the author of *The War against Boys: How Misguided Feminism Is Harming Our Young Men* (2000) and *Who Stole Feminism? How Women Have Betrayed Women* (1994). Her writing has appeared in a wide range of publications, including the *Wall Street Journal*, the *New England Journal of Medicine*, the *Journal of Philosophy*, and the *Times* of London. Her next book, *One Nation under Therapy*, written with Sally Satel, will appear in 2005.



Managing editor of the AEI Press and the director of AEI's W. H. Brady Program on Culture and Freedom. Previously, he served as director of communications at the White House Council on Environmental Quality and as chief speechwriter at the U.S. Department of Labor. His research interests include environmental policy and American political culture.



Visiting Fellow **Fred Thompson** researches intelligence reform and national security. In 1973 and 1974, he was the Senate Watergate Committee's chief minority counsel, and he drew on that experience in his memoir *At That Point in Time* (1975). He has written for the *Washington Post* and other publications.



Resident Fellow **Peter J. Wallison** examines regulation of the financial services industry. He is the editor of *Serving Two Masters, Yet Out of Control: Fannie Mae and Freddie Mac* (2001) and the author of *The GAAP Gap: Corporate Disclosure in the Internet Age* (2000, with Robert E. Litan) and *Ronald Reagan: The Power of Conviction and the Success of His Presidency* (2002). With Bert Ely and Thomas H. Stanton, he wrote *Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks: Why and How*, published in 2004 by the AEI Press.

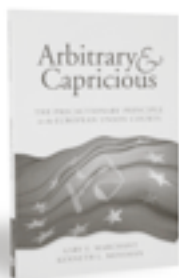
NATIONAL RESEARCH INITIATIVE

■ The National Research Initiative (NRI) strives to expand and systematize AEI's work with outside scholars. The program is designed to seek out and support work by university-based academics, freelance authors, journalists, independent researchers, and others who can augment and reinforce AEI's analysis of practical public policy issues. Its scope extends to most areas of domestic policy, including tax, entitlement, and fiscal policy; government regulation; education; social welfare; health care; domestic security; the legal system; and political institutions.

■ Veronique de Rugy came to AEI in 2004 as an NRI research fellow examining tax and budget policy and financial privacy. Her research output over the year included a study that compared Ronald Reagan's widespread reductions in domestic spending with those of previous presidents and showed that he was the only president in the last forty years to cut inflation-adjusted nondefense outlays. She also published a critique of homeland security spending, and the analysis in that paper formed the basis of a laudatory editorial in the *Washington Post*.

■ In 2004, the AEI Press released the first major book supported through the NRI, *Going Broke by Degree: Why College Costs So Much* (2004), by Richard Vedder, which examines the causes of the college tuition crisis. The author warns that exorbitant tuition hikes are not sustainable and demonstrates that America's universities have become less productive, less efficient, and more likely to use tuition money and state and federal grants to subsidize noninstructional activities such as athletics.

■ Cornell University professor Rick Geddes followed up on his earlier work for AEI on postal reform with two new studies in 2004 before being appointed to a senior research position for President Bush's Council of Economic Advisers. The studies looked at the exemption from antitrust liability enjoyed by the U.S. Postal Service and at the halting congressional proposals to date proposing postal reform.



■ In an NRI-sponsored book titled *Arbitrary and Capricious: The Precautionary Principle in the European Union Courts* (2004), Gary E. Marchant and Kenneth L. Mossman examine the precautionary principle, which in their words “requires forgoing, postponing, or otherwise limiting a product or

activity until uncertainty about its potential risks has been resolved in favor of safety.”

The authors explore how the European Union and its courts have used the principle—one of the most controversial innovations in international environmental, health, and safety policy over the past quarter century—in legal decisions.

■ The NRI sponsored a series of five workshops on the political economy of federalism that concluded during the year. Organized by R. Shep Melnick and Marc Landy of Boston College and AEI's Michael S. Greve, these events brought scholars and policymakers together to discuss topics such as fiscal federalism, judicial federalism, moral federalism, and political competition between states and the federal government.

■ Adjunct Fellow Jon Entine organized two major NRI conferences during the year. The first was on “socially responsible” investing, which incorporates nonfinancial social and ethical criteria and has sparked interest among some institutional investors, public pension funds, and Social Security reform advocates, particularly in the wake of recent corporate scandals. Participants included Jarol B. Manheim of George Washington University, Alicia H. Munnell of Boston College, and Robert J. Palacios of the World Bank. Three of the papers from that event will be published together by the AEI Press in 2005 with an introduction by Mr. Entine. He also orchestrated a conference on the Copenhagen Consensus, a project in which Danish professor Bjørn Lomborg has assembled some of the world's finest economists to explore how the developed world might most effectively marshal its resources to address social and environmental problems. Professor Lomborg participated in the event, as did John D. Graham, head of the Office of Information and Regulatory Affairs.

■ AEI's program of doctoral and postdoctoral fellowships is supported under the auspices of the National Research Initiative. Fellows are in residence for a year at AEI working under the direction of an AEI scholar. The 2003–2004 fellowship recipients were Kimberly Hendrickson, a Ph.D. student from Boston College, working with Mr. Greve; Thomas Merrill, a postdoctoral student from Duke University, working with Leon R. Kass; and Anton Orlich, a Ph.D. student from Yale University, working with Norman J. Ornstein. David Tubbs, who researched the constitutional side of social issues such as gay marriage, was a 2004 W. H. Brady Scholar.



Visiting Fellow Joel Schwartz

CONFERENCES

■ AEI conferences and seminars provide opportunities for government officials, scholars, business executives, and journalists to discuss important public policy issues with members of the Institute's research faculty and with each other. Most events are held in the Charles Wohlstetter Conference Center at the Institute's headquarters in Washington, D.C.; others take place in government briefing rooms, in cities throughout the United States, and at overseas locations. In 2004, AEI hosted more than 230 public events, many of which were televised on C-SPAN and other national outlets and taped for foreign television. Nearly all AEI events can now be viewed on the Internet through a video format that allows users to view speakers and their graphics and to jump to a particular speaker, slide, or session and watch starting from that point. In addition, the preponderance of AEI events are now summarized within a few days, and the conference summaries are both posted on the Institute's website and e-mailed to registrants and other followers of AEI's work on the subject in question.

■ AEI's largest event is its Annual Dinner, held each winter in Washington, D.C. Up to two thousand guests gather for the gala, which features an individual who has made notable intellectual or practical contributions to improved public policy or social welfare. That individual receives an award and delivers the evening's main speech. The recipient of the 2004 Irving Kristol Award, political essayist and



Vice President Dick Cheney, former U.S. president Gerald R. Ford, and AEI president Christopher DeMuth

columnist Charles Krauthammer, gave a speech on democratic realism as the worldview best suited to America's position of preeminent power and the challenges of confronting and subduing Arab-Islamic fanaticism. Vice President Dick Cheney also spoke at the event.

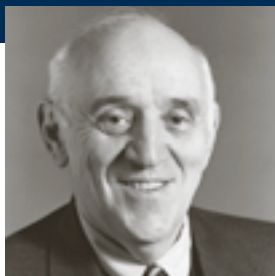
■ AEI's most prestigious event is the World Forum, held each June in Beaver Creek, Colorado. The event brings chief executives of many of the world's largest companies together with senior foreign and domestic government officials and with AEI scholars to consider policy issues of global significance. Participants at the 2004 World Forum included business and financial executives, current and former members of Congress and the Bush administration, and foreign dignitaries from European, Middle Eastern, and Asian nations.

■ In September, AEI hosted its first New York Forum, devoted to off-the-record discussions of critical economic, political, and foreign policy issues facing the United States.

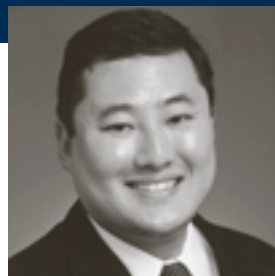
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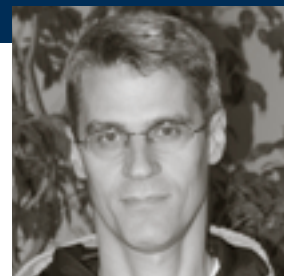
Resident Scholar **Scott Wallsten** examines regulation, privatization, competition, and science and technology policy. His work has been published in periodicals such as the *RAND Journal of Economics*, the *Journal of Industrial Economics*, the *Journal of Regulatory Economics*, and *Regulation*.



Senior Fellow **Ben J. Wattenberg** is the host of *Think Tank*, a weekly public-affairs discussion program on PBS. His nine books include the monumental reference volume, *The First Measured Century: An Illustrated Guide to Trends in America, 1900-2000* (2001, with Theodore Caplow and Louis Hicks) and *Values Matter Most* (1995). His most recent book, *Fewer: How the New Demography of Depopulation Will Shape Our Future*, appeared in 2004.



Visiting Scholar **John Yoo**, a professor of law at the University of California-Berkeley, examines counterterrorism, sovereignty, and other areas where law intersects with international affairs. His articles have appeared in publications such as the *Wall Street Journal*, the *Los Angeles Times*, the *Legal Times*, and *The Weekly Standard*.



Karl Zinsmeister, holder of the J. B. Fuqua Chair, is the editor in chief of *The American Enterprise*, AEI's national magazine of politics, business, and culture. His essays have been published in *The Atlantic Monthly*, *The Public Interest*, *National Review*, the *New York Times*, and the *Washington Post*. His books *Boots on the Ground: A Month with the 82nd Airborne in the Battle for Iraq* (2003) and *Dawn over Baghdad: How the U.S. Military Is Using Bullets and Ballots to Remake Iraq* (2004) describe his experiences as an embedded journalist during the Iraq war and its aftermath.

MEDIA RELATIONS

■ AEI's standing in the national media is unmatched by that of any other policy research institute. The work of AEI scholars is cited more frequently and published more often in the leading U.S. newspapers and public affairs magazines than the work of scholars at other national think tanks. Similarly, AEI scholars are interviewed more often on television and radio than their peers at rival research institutes.

■ Several AEI scholars have regular assignments or advisory roles with leading publications. James K. Glassman writes a weekly column on policy issues for the Scripps Howard News Service. David Frum is a contributing editor for *National Review* and Canada's *National Post*; he and Reuel Marc Gerecht are contributing editors to *The Weekly Standard*. Irving Kristol is the cofounder and a senior editorial associate of *The Public Interest*. Norman J. Ornstein is a columnist for *Roll Call*. Karlyn H. Bowman writes a biweekly column for *Roll Call* called "POLLitics," which provides members of Congress and their staffs with insightful analysis of current public opinion trends. Joshua Muravchik is on the editorial boards of *World Affairs* and the *Journal of Democracy*. Frederick M. Hess is the executive editor of *Education Next*, J. Gregory Sidak is the U.S. editor of the *Journal of Competition Law and Economics*, and Michael Rubin is the editor of the *Middle East Quarterly*.

■ AEI scholars are also active in Internet publishing. Mr. Glassman is the host of TechCentralStation.com, a website providing news and commentary on technology issues relating to business, defense, and public policy; Kevin A. Hassett writes for the website on trends in the U.S. economy, Joel Schwartz covers environmental trends, and Roger Bate assesses world health issues and climate



Michael Barone, U.S. News & World Report



Amity Shlaes, Financial Times

concerns. Michael A. Ledeen and Michael Novak are contributing editors for National Review Online, for which Mr. Frum wrote a daily journal during much of 2004.

■ Scholars contribute regularly to radio and television programs. Newt Gingrich is a news and political analyst for FOX News, and Mr. Ornstein is an election analyst for CBS News. In addition to regularly scheduled appearances, in 2004 several scholars frequently spoke on television and radio; Thomas Donnelly, Mr. Frum, and Mr. Gingrich each appeared at least three dozen times on various programs.

■ Ben J. Wattenberg hosts PBS's *Think Tank*, a weekly policy program in its twelfth season. 2004 shows addressed topics such as the career of Kennedy and Carter administration security analyst Zbigniew Brzezinski; political philosopher John Rawls; former secretary of state Henry Kissinger; the next pope; North Korea's nuclear threat; federalist Alexander Hamilton; former U.S. senator and academic Daniel Patrick Moynihan; India as a new world leader; immigration and becoming American; Ronald Reagan's legacy; Islam at the crossroads; the horrors of the Soviet Gulag; mothers and the workforce; and America as seen by George Orwell. *Think Tank* is also planning to air a documentary on Mr. Muravchik's landmark book *Heaven on Earth: The Rise and Fall of Socialism* (2002).

■ During the year, the Institute held numerous lunches and dinners that brought bureau chiefs, columnists, key reporters, and other prominent journalists together with AEI scholars, policymakers, and private sector leaders to discuss timely policy issues.

■ In 2004, Washington Profile, an international news agency, named Leon Aron one of the ten most influential Russian-Americans. First-generation Russian immigrants were considered based on their level of influence on the government and media, the economy and business, and culture and science.

Resident Fellow James K. Glassman being interviewed at an AEI event



GOVERNMENT RELATIONS

■ Because all of AEI's work involves public policy, the Institute takes particular care to maintain active lines of communication with government policymakers—members of Congress and their staffs, officials and staffs from the executive branch, federal judges, and state and local officeholders.

■ AEI scholars frequently serve on government commissions and boards. Leon R. Kass, M.D., chairs the President's Council on Bioethics, which released two book-length reports in 2004: *Monitoring Stem Cell Research* and *Reproduction and Responsibility: The Regulation of New Biotechnologies*. Nicholas Eberstadt serves on the Board of Scientific Counselors for the National Center for Health Statistics and is a member of the Advisory Commission for Voluntary Foreign Aid for USAID (U.S. Agency for International Development). Joseph Antos is a commissioner of the Maryland Health Services Cost Review Commission, Sally Satel is a member of the National Advisory Council for the Center for Mental Health Services, and Michael Novak is a member of the board of the National Endowment for Democracy. Charles W. Calomiris is a consultant to the Federal Reserve Bank of New York, and AEI public affairs director Veronique Rodman is a member of the Broadcasting Board of Governors. Late in the year, Robert B. Helms was appointed to the National Council for Health Care Research and Quality.

■ In 2004, a few prominent young federal officials came to AEI from the Bush administration. After roles as medical policy development director at the Food and Drug Administration and as medical technology adviser at the Centers for Medicare and Medicaid Services, Scott Gottlieb, M.D., returned to AEI to study regulatory reform of the FDA and the economics of the pharmaceutical and medical-device

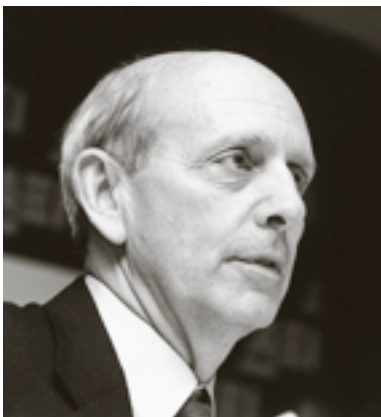


Senator Mitch McConnell (R-Ky.)

industries. Michael Rubin, a former staff adviser on Iran and Iraq in the Office of the Secretary of Defense, returned to AEI to examine domestic politics in Iran and Iraq, Kurdish society, and Arab democracy. Ted Gayer, a visiting scholar who researches environmental policy and government regulation of health and safety risks, came to AEI after serving as a senior economist on the Council of Economic Advisers. Daniel Blumenthal, a former team chief for China, Hong Kong, Taiwan, and Mongolia, came to AEI from the International Affairs Division at the Office of the Secretary of Defense.

■ Although AEI takes no institutional position on policies or legislation, the Institute's scholars vigorously press their policy arguments and findings at government hearings, as well as in their public speaking and writing. In 2004, more than twenty scholars testified before House or Senate committees. Topics included pharmaceutical price controls, the World Trade Organization and U.S. tax policy, the reconstruction of Iraq, U.S. Supreme Court hostility toward religious expression, the International Monetary Fund and World Bank reform, the proposal from the Securities and Exchange Commission on market structure, UN accountability for the oil-for-food program, the proposal of the Financial Accounting Standards Board to require that corporations treat stock options as an expense, Russia's policy toward the United States, post-traumatic stress disorder and Iraq war veterans, malaria in Africa, and improving transparency among credit rating agencies. Mr. Antos held briefings on Capitol Hill for several House and Senate Committees on Medicare prescription-drug benefits and the presidential candidates' health care proposals. Richard Vedder briefed the House Committee on Education and the Workforce on the cost of higher education. Frederick M. Hess held a briefing on the No Child Left Behind Act.

Justice Stephen G. Breyer



Resident Scholar Robert B. Helms testifying before the U.S. Senate Special Committee on Aging



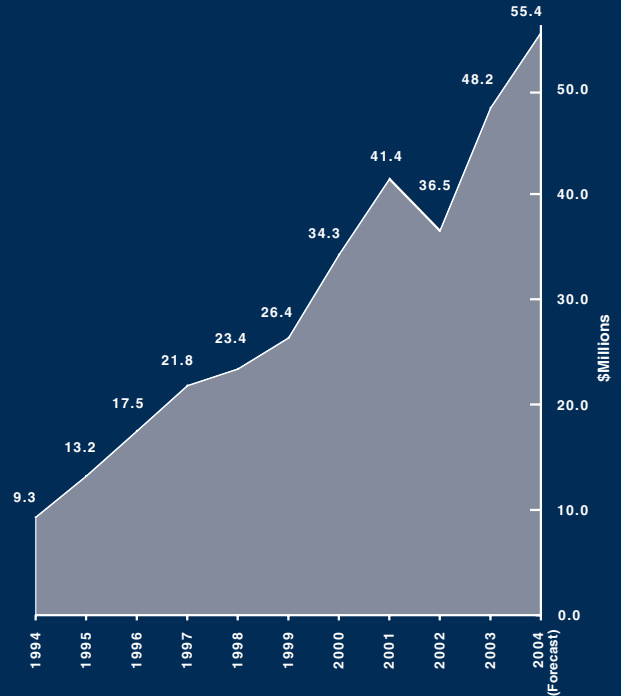
FINANCES

Over the past decade, the American Enterprise Institute's net asset balance has grown from \$9.3 million to \$55.4 million, an average increase of nearly 20 percent each year. This capital has allowed AEI to attract and maintain a group of talented scholars and fellows constituting the most productive public policy research institute in America.

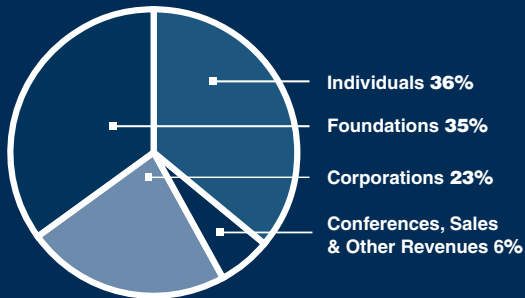
The revenue and expense tables below summarize the Institute's 2003 financial performance. Revenues (excluding investment income) totaled \$24.4 million, and expenses were \$19.5 million.

Individual support composed the largest share (36 percent) of the revenue base. Foundation support grew to the highest level ever and totaled 35 percent of revenues. The balance of the Institute's funding came from corporate support, which grew 37 percent over the prior year, and from conference, book, and other revenues.

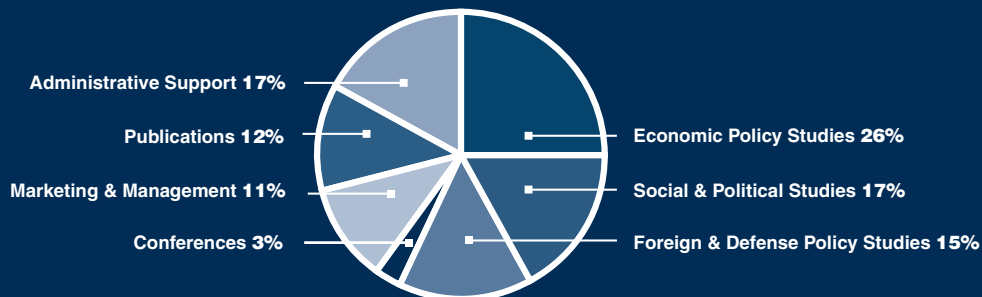
Net Assets



**Sources of
2003 AEI Revenue
\$24.41 million**



**2003 AEI Expenses
\$19.54 million**



More than 72 percent of AEI's total expenditures were devoted to direct support of its research. Economic policy accounted for the largest portion, 44 percent, of our studies. Foreign-policy and defense study expenditures grew 27 percent over the previous year and encompassed 26 percent of our total research budget.

The financial vote of confidence reflected in this report has been accompanied by a similar increase in media exposure for AEI scholars and fellows and increased attendance at AEI conferences. The Institute's staff is very grateful to the many supporters who have joined us in the effort to help shape better public policy.



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