

2005 Annual Report



American Enterprise Institute
for Public Policy Research



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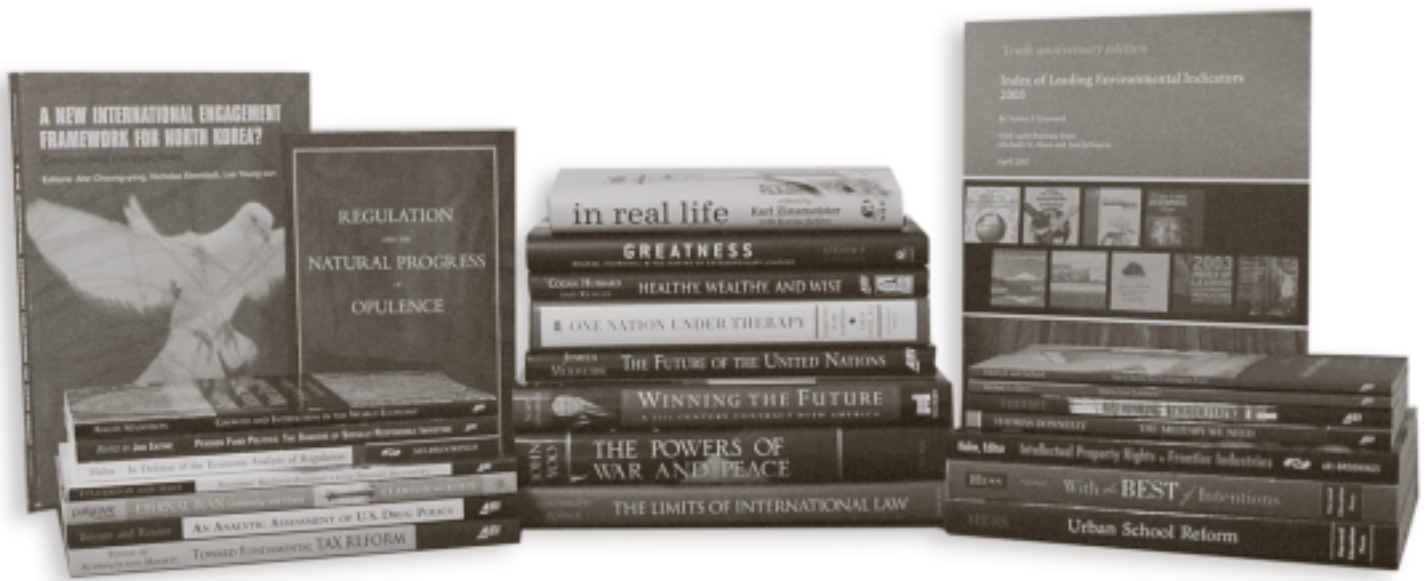
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THE AMERICAN ENTERPRISE INSTITUTE sponsors original research on the world economy, U.S. foreign policy and international security, and domestic political and social issues. AEI is dedicated to preserving and strengthening the foundations of a free 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



Chairman Bruce Kovner and President Christopher DeMuth

In a year of bitter partisanship in Washington, the American Enterprise Institute set a high example of serious, reasoned policy debate and found ever-expanding audiences for its work. AEI scholars produced a dazzling array of original research and writing, and the Institute continued to attract gifted younger policy experts to its research staff.

AEI sponsored nearly 200 major conferences during the year. C-SPAN and major television networks covered many of them, and AEI posted most of them in video and audio on our website, www.aei.org. The website, which brought millions of viewers to AEI, features the texts of our essays, reports, and congressional testimony. It now includes six subsites devoted to specialized subjects from health policy to liability reform.

The Institute's *Outlook* essays provided extended analyses of current issues. The nine *Outlook* publications have proven to be a highly effective medium for injecting our ideas into practical policy debate. An *Outlook* concerning developments in Asia debuted this year, as did a periodic report on domestic politics and polls. *The American Enterprise* magazine, featuring compelling reporting from around the country, continued to grow in readership.

Four new books from the AEI Press provide a sense of the range of Institute's output: *Healthy, Wealthy, and Wise*, a joint project with the Hoover

Institution, advanced five concrete ideas to address the most serious problems in the U.S. health care system. *Toward Fundamental Tax Reform* anticipated the report of the President's Advisory Panel on Federal Tax Reform with analyses by tax authorities; the volume was dedicated to our friend David Bradford of Princeton University, the dean of tax economists who died early in the year. Joshua Muravchik's *The Future of the United Nations* provided an unflinching examination of the UN's sorry record and recommended deep structural changes. And Thomas Donnelly's *The Military We Need* documented the gap between America's security challenges and its military capabilities. Many other new AEI books and monographs are documented in this report.

Over the past six decades, AEI scholars have pledged their allegiance to the idea of limited but energetic government. In the past year, Kevin A. Hassett, Newt Gingrich, Robert W. Hahn, Véronique de Rugy, and others have worked on many fronts to revitalize the idea as domestic spending, regulation, and legal activism surged. The Institute launched a year-long program to study the government's response to terrorist attacks and natural disasters after hurricanes Katrina and Rita produced a federal spending splurge.

Thirty years ago, AEI scholars led the effort to deregulate the nation's transportation sector. Today regulatory activity in corporate governance, communications, finance, pharmaceuticals, and biotechnology occupies our attention. The AEI-Brookings Joint Center for Regulatory Studies analyzed regulations and also published new research on intellectual property in information technology and biotechnology. The Institute launched an eighteen-month project to investigate investment company regulation. Environmental, energy, and FDA regulation were the subjects of probing conferences and studies.

The arrival of Ted Frank greatly bolstered our work on liability reform and permitted Michael S. Greve to turn his undivided attention to his influential work on federalism and constitutional law. Frederick M. Hess

produced a cornucopia of original research on school performance, and AEI's health policy scholars launched an important Medicare reform project. The W. H. Brady Program in Culture and Freedom kept the Institute in the news with a Camille Paglia lecture and a conference on the "intelligent design" debate. Leon R. Kass completed his distinguished tour as chairman of the President's Council on Bioethics. Christina Hoff Sommers and Sally Satel's book, *One Nation under Therapy*, examined the therapeutic culture with trenchancy and humor.

AEI's work in international affairs grew mightily in 2005. The Institute hosted presentations by Iraqi and Afghan notables, and our scholars provided a steady stream of in-depth analyses of developments in those nations and throughout the Middle East. The voices of liberal reformers will be especially important in the democratic transformation of the Middle East, and AEI launched a project on dissent and reform to provide them venues for discussion and "networking." China's rise occupied other AEI scholars, as did India's promise, Japan's political transformation, and Russia's increasingly authoritarian rule. Our research was enhanced by the appointment of Roger F. Noriega, former assistant secretary of state for Western Hemisphere affairs, who is focusing on Latin America; Frederick W. Kagan, formerly a professor of military history at West Point, who is working on military restructuring; and Gary Schmitt, formerly executive director of the Project for the New American Century, who is directing AEI's new Program in Advanced Strategic Studies.

Finally, we have consolidated and expanded our work on international economics and development issues, inaugurating new work ranging from World Bank reform to efforts to control the spread of AIDS, malaria, and other infectious diseases. We attracted



Trustees (clockwise from top) Marilyn Ware; Martin M. Koffel; and Harlan Crow with Federal Reserve Board of Governors chairman Alan Greenspan

to our ranks Phillip L. Swagel, formerly chief of staff of the Council of Economic Advisers, whose portfolio includes global trade and labor market issues; and Adam Lerrick, a professor of economics at Carnegie Mellon University and pioneer in private-market restructuring of sovereign debt, who will continue his efforts to improve the performance of international financial institutions.

Having welcomed so many new colleagues, we must conclude with three farewells. Radek Sikorski, who directed AEI's New Atlantic Initiative with great conviction and verve, has returned to his native Poland, where he was elected to the senate and then appointed minister of defense. Scott Gottlieb, who brought stunning insight to AEI's work on pharmaceutical policy, has been appointed deputy commissioner of the Food and Drug Administration. And Montgomery Brown, AEI's esteemed vice president who oversaw our most important product—the printed word—has joined the Earhart Foundation in Ann Arbor, Michigan. We will be cheering them on.

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.



"This thoughtful and comprehensive set of proposals for addressing the failings of health-care markets, and the careful analysis of their likely impacts on spending, the uninsured, and the federal budget should be required reading by all participants in the health-care policy debate. These proposals provide a map of the roads that must be traveled to make our health-care markets work more efficiently and equitably, and forestall greater government intervention."

—ROBERT D. REISCHAUER, president of the Urban Institute

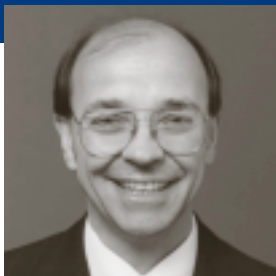
"Healthy, Wealthy, and Wise clearly explains what we must do to transform health and health care in America. . . . Every policymaker in government and every decision maker in the corporations that pay for so much of America's health care should read this important book—and then act on its recommendations."

—Senior Fellow [NEWT GINGRICH](#)

"It is well known that the tax code distorts the way our health-care markets work and encourages wasteful spending. Healthy, Wealthy, and Wise . . . proposes fundamental reforms to the tax code that the authors argue, persuasively, will lead people to make better choices about their health care spending. The result would cut spending and promote greater competition based on price and quality."

—MARK V. PAULY, Wharton School of Business, University of Pennsylvania

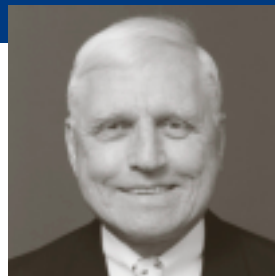
AEI FELLOWS & SCHOLARS



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 is currently working on a book about the failure of Medicare reforms to date.



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).

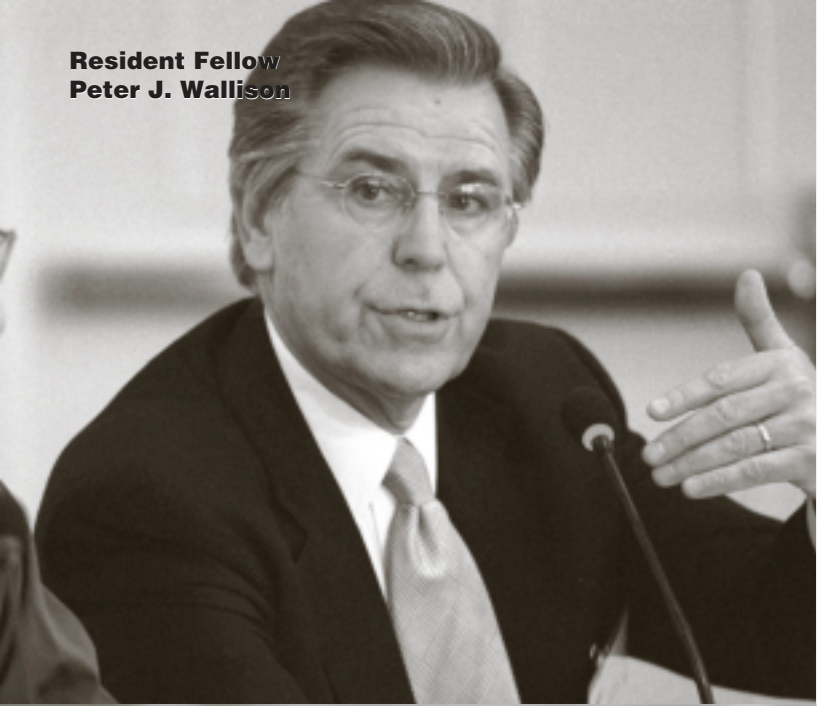


Resident Scholar **Claude E. Barfield** studies international trade policy, U.S. competitiveness, and science and technology policy. He is the author of *High-Tech Protectionism: The Irrationality of Antidumping Laus* (2003) and *Free Trade, Sovereignty, Democracy: The Future of the World Trade Organization* (2001). He and a coauthor are currently working on *East Asian Regionalism and the Rise of China: How Will the United States Respond?*, a sequel to his earlier work *Tiger by the Tail: China and the World Trade Organization* (1999, with Mark A. Groombridge).



Resident Fellow **Roger Bate** researches health and environmental policy in the developing world and writes prolifically about the violation of property and other rights by its despotic regimes. A contributor to *The Weekly Standard*, the *Wall Street Journal*, and South Africa's *Business Day*, he also writes essays for AEI's *Health Policy Outlook* and *Environmental Policy Outlook*. Mr. Bate is the coauthor of *Malaria and the DDT Story* (2001, with Richard Tren).

**Resident Fellow
Peter J. Wallison**



**Resident Scholar
Kevin A. Hassett**



**Resident Fellow
Alex J. Pollock**



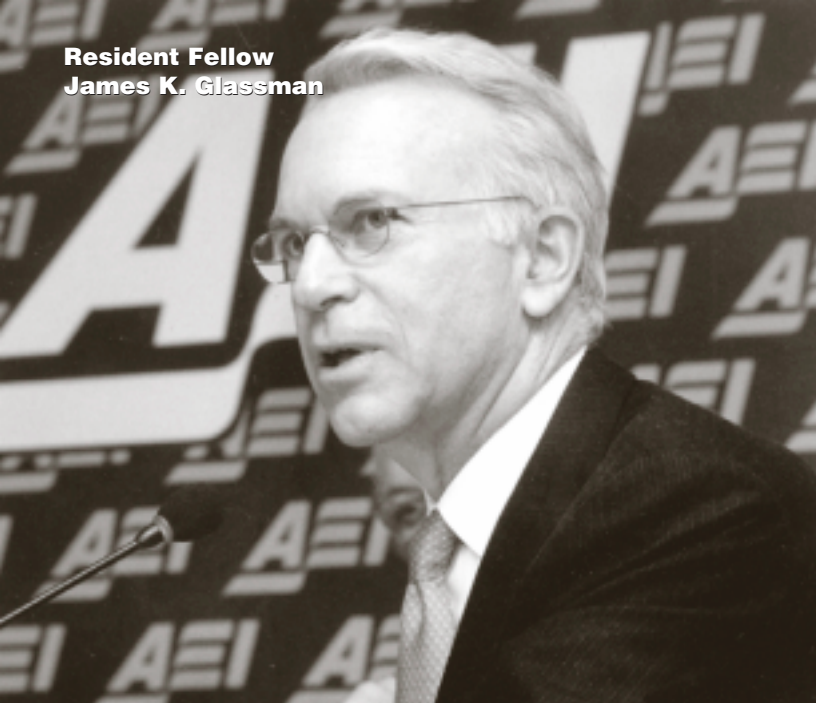
**Resident Scholar
Phillip L. Swagel**



**Wilson H. Taylor Scholar
Joseph Antos**



**Resident Fellow
James K. Glassman**



GENERAL ECONOMICS

■ After more than two years as chief of staff at the White House Council of Economic Advisers (CEA), Phillip L. Swagel came to AEI in the spring of 2005 as a resident scholar studying the impact of globalization. He was joined by his Bush administration colleague N. Gregory Mankiw, who became a visiting scholar at AEI focusing on fiscal policy and international economic policy after resigning earlier this year as chairman of the CEA.

■ The Institute's monthly *Economic Outlook*, written by John H. Makin, analyzes the major trends in the U.S. and world economies. In 2005, Mr. Makin addressed themes such as the housing bubble, U.S. consumption and savings rates, interest rates, the prospects for Europe's currency union, and the challenges facing the Federal Reserve.

■ The AEI Working Paper series, launched last year, makes developing academic works available in preliminary form for open comment and often allows important scholarship to reach the policy community long before the work is available in academic journals. Over the last twelve months these papers have covered such topics as the California Air Resources Board's ozone standards, the effectiveness of federal homeland security spending, the expensing of employee stock options, and USAID's failure to control malaria.



Visiting Scholar N. Gregory Mankiw

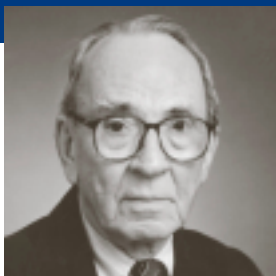


Visiting Scholar John H. Makin

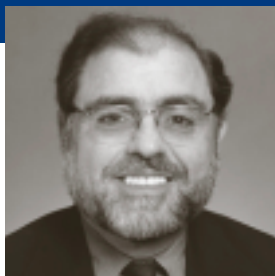
■ At a July conference, visiting scholar and University of Chicago professor Steven J. Davis examined the implications of the fluidity of U.S. labor markets for productivity growth. He argued that much of the churn in the job market results from bigger and more productive stores displacing smaller and less productive stores; productivity growth and the fluid labor market are thereby linked in the dynamic U.S. labor market.

■ *Growth and Interaction in the World Economy: The Roots of Modernity* (2005), by Angus Maddison, explores the causes of the West's economic growth over the last 2,000 years and contrasts it with the economic history of the rest of the world. Mr. Maddison suggests that Western Europe first overtook Chinese levels of per-capita income not in England in the late eighteenth century, as others argue, but in the fourteenth century. A preliminary version of this was originally delivered as the 2001 Henry Wendt Lecture at AEI.

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 principal authors of *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 and edited several books, including *Rethinking WTC: An Evaluation of the Women, Infants, and Children Program* (2001, with Peter Germanis). Mr. Besharov directs the Welfare Reform Academy at the University of Maryland and this year was elected vice president of the Association for Public Policy Analysis and Management.



Visiting Fellow **Edward Blum**, who joined AEI in 2005, researches civil rights policy. He is currently collaborating with Manhattan Institute senior fellow Abigail Thernstrom on a book arguing that certain provisions of the Voting Rights Act should be allowed to expire when they are again up for reauthorization. A senior fellow at the Center for Equal Opportunity, Mr. Blum is a frequent contributor to the *Wall Street Journal*, *The Weekly Standard*, and *National Review*, among others.



Resident Fellow **Dan Blumenthal** studies Asia and international security. He has written essays for the *Washington Post*, the *Asian Wall Street Journal*, and the *Far Eastern Economic Review* and is the principal author of AEI's bimonthly *Asian Outlook*, which debuted this year.

FISCAL AND MONETARY POLICY

■ Nine of the world's leading tax policy scholars outlined their ideas about reform in the AEI Press book *Toward Fundamental Tax Reform* (2005), edited by Kevin A. Hassett and Alan J. Auerbach. The book includes essays by, among others, R. Glenn Hubbard, the late David F. Bradford, and Nobel laureate Edward C. Prescott, as well as analysis by the editors on the interplay that occurred when the scholars met to discuss their work.

■ Hurricanes Katrina and Rita provided the impetus for a new year-long AEI project to examine the federal government's response to natural disasters and terrorist attacks. The project is directed by Véronique de Rugy and involves Mr. Hassett, Mr. Hubbard, Phillip L. Swagel, Norman J. Ornstein, and Newt Gingrich, among others. The project began by describing the economic principles that should guide relief efforts and has moved on to provide ideas on limiting and improving the government's response while encouraging assistance from the private sector. The AEI team will also scrutinize relief spending. In early October, the first of a series of conferences planned for the project examined the liability and insurance implications of Katrina-related damage.

■ Ms. de Rugy addressed the federal government's spending on homeland security, releasing a working paper on port security spending and updating her influential 2004 paper, "What Does Homeland Security Spending Buy?" Former chairman of the House Committee on Homeland Security Christopher Cox gave the keynote speech at the April conference at which Ms. de Rugy presented the latter paper. She published many articles calling on the government to make decisions based on cost-benefit analysis rather than political motivations.

■ In April, Alex J. Pollock proposed a new approach to Social Security reform: having the Treasury bypass the Social Security Trust Fund and issue inflation-indexed



Resident Fellow Desmond Lachman



Randal Keith Quarles, under secretary of the Treasury for domestic finance

bonds directly to personal accounts. By issuing a financial instrument (rather than cash) and bypassing the trust fund (an "unnecessary 'middle man,'" as he calls it), this approach would deliver the benefits of personal accounts without the risks or costs often cited by critics. Allan H. Meltzer and Rudolph G. Penner of the Urban Institute commented on his idea at an AEI conference, and in June Mr. Pollock testified about his plan before the House Ways and Means Committee.

■ *Income Redistribution from Social Security* (2005), an AEI Press monograph by Don Fullerton and Brent D. Mast, reviews seven crucial factors affecting how Social Security redistributes income. Examining factors such as life expectancy, spousal benefits, and non-monetary income, the authors argue that, contrary to popular belief, Social Security may not redistribute money from the rich to the poor.

■ In January, Steven J. Davis presented his research on the long-term effects of different tax rates in major developed economies and explained how rates drive large international differences in working hours and in types of available jobs. Mr. Hassett and Lee Price of the Economic Policy Institute commented.

■ At a June conference organized by Ms. de Rugy, Susan Dudley of George Mason University, Chris Edwards of the Cato Institute, and Paul R. Noe of the Office of Management and Budget examined the costs of regulation and an increasingly complicated tax code.

■ A March conference on Medicare and Social Security began with an address by Centers for Medicare and Medicaid Services administrator Mark McClellan on the future of Medicare and the prospects for reform. The chief actuaries of Medicare and Social Security presented the major findings of their annual reports, and two panels of experts responded. Mark Warshawsky of the Treasury Department outlined the administration's priorities for the programs.

Research Fellow Véronique de Rugy

Visiting Scholar R. Glenn Hubbard



INTERNATIONAL TRADE AND FINANCE

■ Adam Lerrick joined AEI this year as a visiting scholar. He is the Friends of Allan H. Meltzer Professor of Economics at the Tepper School of Business at Carnegie Mellon University, the director of Carnegie Mellon's Gailliot Center, and an adviser to the Congressional Joint Economic Committee. At AEI, Mr. Lerrick is studying international capital markets, particularly the role of hedge funds; international financial crises; debt restructuring; and economic development.

■ Phillip L. Swagel and N. Gregory Mankiw admonished Congress for current antidumping laws and called for trade reform in an article published in the July–August issue of *Foreign Affairs*. Having described antidumping as the “third rail” of U.S. trade politics—with few politicians of either party willing to speak out against it—the economists debunked the myth that antidumping tariffs promote fairness and competition, arguing instead that the tariffs’ purpose is essentially to prevent foreign competition.

■ In an early August conference, AEI economic and foreign policy scholars discussed the bid by the China National Offshore Oil Corporation (CNOOC) for ownership of Unocal. James K. Glassman and Mr. Swagel warned of the dangers of blocking free trade, especially with important



“CNOOC’s Bid for Unocal” event in August with Resident Fellow Dan Blumenthal, Resident Scholar Phillip L. Swagel, Resident Fellow James K. Glassman, Resident Fellow Thomas Donnelly, and Resident Scholar Claude E. Barfield

trading partners like China. Thomas Donnelly had a different take. Pointing out that Unocal’s assets were concentrated in East Asia and the Pacific—with much of the gas going to Japan, South Korea, and Taiwan—he argued that China aimed to gain political advantage with this bid. Dan Blumenthal suggested that the congressional vote against the proposed transaction was understandable given concern over China’s energy strategy.

■ A March event examined the dispute between the United States and the European Union over alleged subsidies to Boeing and Airbus for new commercial aircraft. The event featured Mr. Swagel, Richard Aboulafia of the Teal Group, and Edward M. Graham of the Institute for International Economics, with Claude E. Barfield moderating.

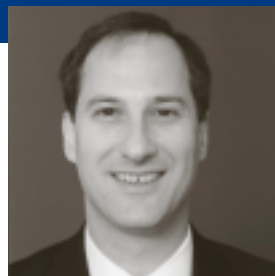
AEI FELLOWS & SCHOLARS



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 2005 she released new public opinion studies on Social Security reform and on patriotism and military service. She continues to update studies on public opinion of the war on terrorism and the war in Iraq, taxes, the environment, abortion, and homosexuality.



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).



Charles W. Calomiris is a visiting scholar at AEI 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* (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, *A Time for Freedom*, was published in October of this year.

FINANCIAL MARKETS

■ In September, an eighteen-month conference series examining the ways in which investment companies are currently regulated kicked off with an event on the regulation of mutual funds. The event considered a proposal to fundamentally change their regulation by providing a market-based alternative to the fee-setting functions of mutual fund directors. The conference series is directed by Peter J. Wallison and Robert E. Litan of the Brookings Institution. At the conclusion of the conference series, the directors will recommend changes to current regulations, should they deem any to be warranted.

■ AEI's monthly *Financial Services Outlook*, authored mainly by Mr. Wallison with periodic contributions by Alex J. Pollock, analyzes policies affecting financial markets. In 2005 it covered such topics as the prospects for legislation dealing with government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac; the regulation of banks; the evolution of U.S. accounting practices from judgment-making to rule-following; Sarbanes-Oxley developments; and the folly of the government's attempt to promote "investor confidence."

■ Mr. Pollock organized an event in September examining the Credit Rating Agency Duopoly Relief Act of 2005, which seeks to increase competition in the credit rating industry and improve the quality of its work. The bill's sponsor, Congressman Michael G. Fitzpatrick (R-Pa.), was joined at the event by members of industry and scholars who specialize on the topic, including AEI's Ted Frank. Mr. Pollock called for an end to the government-sponsored cartel in credit ratings in his January *Financial Services Outlook* and testified before a House Committee on Financial Services subcommittee in June in support of the bill, describing it as "pro-competitive, pro-investor alternatives, pro-market discipline."

■ *Pension Fund Politics: The Dangers of Socially Responsible Investing* (2005), edited by Miami University (Ohio) scholar in residence and AEI adjunct fellow Jon H. Entine, examines the legal, political, and fiduciary consequences of injecting social and ethical criteria into the management of pension funds. The book is authored by an ideologically diverse group of scholars: Mr. Entine, Jarol B. Manheim of George Washington University, Alicia H. Munnell and Annika Sundén of Boston College, and Charles E. Rounds Jr. of Suffolk University Law School. The authors argue that social investing, by both the political Left and the



Visiting Scholar Adam Lerrick



U.S. Securities and Exchange Commission chairman Christopher Cox

political Right, frequently ends up hurting the very people—often the economically disadvantaged—that it is supposed to help. In many instances, social investing amounts to little more than ideologically driven gambling with other people's money.

■ AEI hosts the U.S. Shadow Financial Regulatory Committee, a group of publicly recognized independent experts on the financial services industry, including banking, insurance, and securities. The committee's quarterly meetings in 2005 covered topics such as the Housing Enterprise Regulatory Reform Act of 2005, the GSE portfolios, section 404 of Sarbanes-Oxley, deposit insurance legislation, the Public Company Accounting Oversight Board, and the expanded examination authority of the Federal Deposit Insurance Corporation.

■ Adam Lerrick inaugurated a series of conferences aimed at increasing the level of understanding of the role of hedge funds in global capital markets with a July event that examined the hedge-fund industry, its culture of secrecy, and the efforts by the Securities and Exchange Commission to regulate it.

■ Several events reviewed the powers of Fannie Mae and Freddie Mac. At an April conference organized by Mr. Wallison, University of California–Berkeley professor Dwight Jaffee presented his paper "On Limiting the Retained Mortgage Portfolios of Fannie Mae and Freddie Mac," and a panel of experts discussed whether the GSEs' portfolios ought to be capped, reduced, or eliminated. At another conference in September, experts from industry, academia, and the Senate Republican Policy Committee examined whether portfolio limitations for Fannie and Freddie would adversely affect residential finance.

ENVIRONMENTAL POLICY

■ In 2005, the bimonthly *Environmental Policy Outlook* essays included features on the president's Clear Skies bill, the research of the Intergovernmental Panel on Climate Change's controversial fourth assessment report, growing evangelical Christian interest in environmental issues, and the media's depiction versus the reality of U.S. air quality.

■ AEI and the Pacific Research Institute released Steven F. Hayward's *Index of Leading Environmental Indicators 2005: Tenth Anniversary Edition*, which documented that U.S. environmental quality continues to improve in many areas.

■ Joel Schwartz published an AEI working paper on the California Air Resource Board's adoption of the most stringent ozone air-pollution standard in the United States. Given that the costs of the program outweigh the health benefits, Mr. Schwartz recommends that the board harmonize its ozone standard with the less stringent federal one.

■ In a paper released by the AEI-Brookings Joint Center for Regulatory Studies, economists Ted Gayer and Robert W. Hahn argue that the costs of mercury regulation exceed the benefits, and highlight some of the dangers associated with regulating small risks.

■ At a Joint Center conference in January, author Michael Crichton discussed science policy, addressing the need to



Colorado governor Bill Owens at an event on the Endangered Species Act in March



Author Michael Crichton at an event on science policy in January

consider new ways to reduce controversy and provide more effective policies on such divisive topics as genetically modified organisms and climate change.

■ Colorado governor Bill Owens spoke at a March event on the Endangered Species Act. He discussed his state's common-sense approach to achieving species recovery in cooperation with private landowners.

■ After the December 2004 tsunami in Southeast Asia, Judge Richard A. Posner spoke at a Joint Center event about efficient responses to catastrophic risks. He applied cost-benefit analysis to scenarios like abrupt climate change, bioterrorism, and an asteroid hitting the earth to determine appropriate responses, arguing that policymakers are now not doing enough to address these potential dangers.

■ AEI's annual Earth Day checkup conference featured Mr. Hayward on his *Index*; Karlyn H. Bowman on the environmental movement; Mr. Gayer on mercury regulation; Samuel Thernstrom on the Kyoto Protocol; and Roger Bate on the environmental outlook for the developing world.

AEI FELLOWS & SCHOLARS



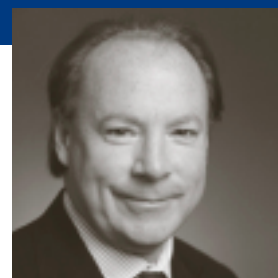
Dennis Coyle is the Gerald R. Ford Fellow in American Politics at AEI for the 2005–2006 academic year. An associate professor of politics at Catholic University of America, Mr. Coyle is currently at work on a book about democracy. His recent publications include "The Takings Clause," in *Federalism in America* (2005); "Organizations, Culture, and Shadows in the Cave," in *Politics, Public Law and Administration* (2005); and occasional opinion pieces for the *Washington Post* and National Review Online.



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*.



Research Fellow **Véronique de Rugy** studies tax and budget policy. Much of her recent work focuses on the Department of Homeland Security, evaluating the efficiency and soundness of its policies. In articles appearing in *National Review*, the *Washington Times*, and on Tech Central Station, Ms. de Rugy has often criticized the department for making decisions for political reasons with dangerous and wasteful consequences. Her study "What Does Homeland Security Spending Buy?" has been widely publicized and influential.

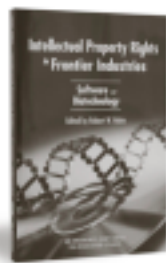


Resident Fellow **Thomas Donnelly**, primary author of AEI's *National Security Outlook*, analyzes U.S. strategic defense and international security issues. He is the author of several books and studies, the most recent of which are *The Military We Need: The Defense Requirements of the Bush Doctrine* (2005) and *Operation Iraqi Freedom: A Strategic Assessment* (2004). He organized a series of highly successful events in 2005 that analyzed the future of the main branches of the U.S. military.

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 rule-making 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 AEI Press published Mr. Hahn's monograph *In Defense of the Economic Analysis of Regulation* this year. The work addresses the analytical concerns of many critics who are skeptical of the use of quantitative cost-benefit analysis in regulatory decision making. The monograph emphasizes that summary measures of the impact of regulations have made important contributions to our understanding of the regulatory process; explains that many of the critics' concerns can be addressed by making refinements to scorecards rather than wholly rejecting them as an analytical tool; and concludes that the solution to legitimate concerns raised by critics is not to eliminate quantitative economic analysis, but rather to gain a deeper understanding of its strengths and weaknesses and to use it wisely.



■ In *Intellectual Property Rights in Frontier Industries: Software and Biotechnology*—edited by Mr. Hahn and published this year by the AEI Press—leading intellectual property (IP) scholars express their views on how the current system is faring in the information age and how it might be improved. The analysis focuses on the software and biotechnology sectors and covers both legal and economic points of view. This volume offers valuable insights into IP protection rules in an information economy and provides an important perspective on how to solve some of the more pressing issues.

■ In 2005, the AEI Press published Sam Peltzman's *Regulation and the Natural Progress of Opulence*, based on his



Resident Scholar Scott Wallsten (third from right) and Robert E. Litan (farthest right) of the Joint Center participating on a panel on telecommunications deregulation in March

2004 Joint Center Distinguished Lecture of the same name. The monograph's thesis is that even though market forces frequently undermine attempts at regulation, counterproductive regulation can survive for a long time. Mr. Peltzman suggests that good empirical research on regulation can help guide policy reforms when the issues become politically salient.

■ At the 2005 Joint Center Distinguished Lecture, William Baumol, a professor of economics at New York University and a professor emeritus and senior research economist at Princeton University, showed how regulators can be misled by oversimplified economic theory. He explained that effective competition does not impose uniform prices and demonstrates a stronger result: Where competitive pressures prevail, they can force all firms to adopt discriminatory prices if consumer arbitrage is difficult. This radically different picture of competitive markets helps to explain the near ubiquity of discriminatory pricing in reality and indicates limits to the use of discriminatory pricing as a justification for regulatory intervention.

■ A March conference cosponsored by the Joint Center and the Stanford Institute for Economic Policy Research examined two alternative visions for the future of telecommunications deregulation in the United States. AT&T chairman and CEO David Dorman gave the keynote speech, and other participants included AEI's Scott Wallsten, Mr. Hahn, Thomas Hazlett of the Manhattan Institute, and Gregory Rosston of Stanford University.

■ Current regulations governing the telecommunications spectrum are widely viewed as inefficient and costly, but experts disagree about the best ways in which to manage that spectrum. An April Joint Center conference examined the pros and cons of different forms of spectrum governance. Mr. Baumol presented his Joint Center paper "Toward an Evolutionary Regime for Spectrum Governance: Licensing or Unrestricted Entry?" which advocates a "quasi-market" regime that auctions private spectrum licenses as the most efficient way to allocate broadcast-frequency ranges.

HEALTH POLICY

■ This year the AEI Press, in conjunction with the Hoover Institution, released *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*, by John F. Cogan, R. Glenn Hubbard, and Daniel P. Kessler. The three economists propose a comprehensive set of health policy reforms that encourage accountability and competition and increase the incentives for consumers to make sound health care decisions. The reforms will create a more efficient and equitable health care market, improve the quality of care, and provide insurance to millions of Americans who are currently uninsured.

■ After a productive stint at AEI, Scott Gottlieb, M.D., returned to the public sphere in August as deputy commissioner for medical and scientific affairs at the Food and Drug Administration (FDA). In publications such as *Forbes* and *USA Today*, Dr. Gottlieb wrote extensively in 2005 about such topics as FDA rigidity and the obstruction of cancer drug development; he also wrote about the shift that drug companies are making from focusing some of their research and development on routine medical maladies to focusing solely on major ailments like cancer and multiple sclerosis, largely a result of excessive tort litigation. Dr. Gottlieb often spoke and testified before Congress, and shortly before leaving AEI released a working paper about the impact of political intrusions on drug development and the consequences for America's bio-defense.

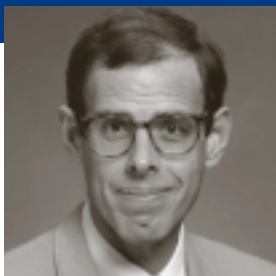


Resident Fellow Roger Bate testifying about malaria and USAID before a subcommittee of the Senate Committee on Homeland Security and Government Affairs

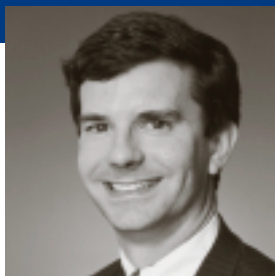
■ Roger Bate wrote frequently during this past year about maladies afflicting the developing world, notably AIDS and malaria, and about how they are being handled by international agencies. Following the tsunami disaster in December 2004, he traveled to the affected areas and urged international relief organizations to fight malaria by spraying houses with DDT. Later in the year he released an AEI working paper on USAID's malaria control policy, a subject on which he testified before a Senate Committee on Homeland Security and Government Affairs subcommittee. In April he released a Joint Center working paper with Richard Tren of Africa Fighting Malaria and Jasson Urbach of the Free Market Foundation about tariffs, taxes, and regulatory requirements obstructing access to essential drugs in Africa.

■ Sally Satel, M.D., attended the 2005 meetings of the Convention on Biodiversity (CBD) in Bangkok in February and published two articles on the impact of international patent protections on bio-prospecting and pharmaceutical innovation.

AEI FELLOWS & SCHOLARS



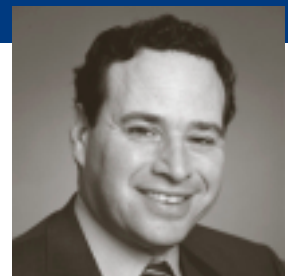
Nicholas Eberstadt is AEI's Henry Wendt Scholar in Political Economy. His primary areas of focus include demographics, North Korea, public health, and economic development. This year Mr. Eberstadt coauthored an important and highly publicized report about the looming HIV/AIDS crisis in the Muslim world and the insufficient response it has so far received, and he is currently working on a related book. In 2005 his writing appeared in *Policy Review*, *Foreign Policy*, *The National Interest*, the *Los Angeles Times*, and several Asian publications.



Research Fellow **John C. Fortier** studies politics, elections, and the presidency. He is the executive director of the Continuity of Government Commission and an adjunct professor at the University of Pennsylvania. In summer 2005, he began writing a weekly column for the *Hill*, and his work has also appeared in the *Journal of Law Reform*, the *New York Times*, and the *Los Angeles Times*. He edited the third edition of *After the People Vote: A Guide to the Electoral College*, published by the AEI Press in 2004.



Resident Fellow **Ted Frank** is director of the AEI Liability Project, studying and managing the Institute's research on product liability; medical malpractice; class actions and civil procedure; corporate regulation; antitrust, patent, and lifestyle litigation; and judicial selection. Before joining AEI in the summer of 2005, Mr. Frank was a practicing attorney. He has lectured at the Knight Center for Specialized Journalism at the University of Maryland since 2003 and is a regular contributor to the tort reform weblog Overlawyered.com.



Resident Fellow **David Frum** analyzes U.S., Canadian, and European politics and culture. Mr. Frum is a contributing editor to *National Review* and *The Weekly Standard*; a weekly columnist for Canada's *National Post*; and a frequent contributor to *Il Foglio* (Italy). His two most recent books were both *New York Times* bestsellers: *An End to Evil: How to Win the War on Terror* (2003, with Richard Perle) and *The Right Man: The Surprise Presidency of George W. Bush* (2003).

HEALTH POLICY, *continued*

■ AEI's bimonthly *Health Policy Outlook* focuses on timely health policy issues. In 2005, among other topics, it considered the main options for altering the tax treatment of medical expenses and identified measures that could lead to comprehensive health care reform and greater efficiency; the project of moving Medicare toward a sound financial footing; and the misleading reports from AARP and Families USA about rising pharmaceutical prices.

■ Successive Department of Health and Human Services secretaries this year appointed Robert B. Helms first to the National Advisory Council for Health Care Research and Quality and then also to a Medicaid advisory commission. Mr. Helms joined Newt Gingrich on the health care advisory council.

■ At a March conference organized by Michael S. Greve, scholars discussed their empirical research on the causes of U.S. obesity—which include declining food prices and a decrease in physical activity—as well as the legal basis for obesity suits and the merits of regulating and legislating in this area.

■ The FDA is charged with assuring the safety and efficacy of new drugs while also making them available as quickly as possible. To help meet these competing pressures, Congress enacted the Prescription Drug User Fee Act (PDUFA) in 1992. At a February Joint Center conference, Adrian H. B. Gottschalk of Biogen Idec and Ernst R. Berndt of MIT presented the first empirical research on the impact of PDUFA, which found that the legislation did in fact significantly shorten drug approval times. Dr. Gottlieb and Randall Lutter of the FDA commented, with the former arguing that Congress does not provide the FDA with enough funding for these increasingly difficult duties.

Scott Gottlieb, deputy commissioner for medical and scientific affairs at the Food and Drug Administration



Mark B. McClellan, administrator of the Centers for Medicare and Medicaid Services



Wilson H. Taylor Scholar Joseph Antos (farthest right) moderating a panel in March on the future of Medicare

■ Several events this year examined the issue of Americans without health insurance. An April seminar organized by Joseph Antos explored methods of improving the Census Bureau's estimates of the uninsured, following two Department of Health and Human Services analyses that concluded the bureau's 2003 estimates had overshot the number by up to 9 million people. A September event followed up on this topic, with Senator Robert F. Bennett (R-Utah) giving the keynote address. Mr. Helms organized a May event with four experts who shared their views on how best to cover the uninsured and how to do so without leaving them, the currently insured, or taxpayers worse off than before.

■ A September event examined recent regulations that sharply limit the amount of outside consulting scientists at the National Institutes of Health are allowed to do. The regulations were a response to charges by Congress and prominent academics that government and academic collaboration with pharmaceutical firms creates biases that can undermine the validity of otherwise useful research. Harvard Medical School professor Thomas P. Stossel presented the argument he made in the *New England Journal of Medicine* that, on the contrary, collaborative research is often extremely valuable because researchers are capable of keeping scientific goals paramount in their work.

■ John E. Calfee published several articles on the role of the FDA and pharmaceutical companies in ensuring drug safety, including a *Health Policy Outlook*, and testified before the House Committee on Government Reform in May warning that the FDA's tendency toward greater caution and excessive warnings could prove harmful to the development and use of valuable new drugs.

■ Mr. Calfee and Dr. Gottlieb participated with John R. Graham of the Pacific Research Institute at an AEI conference on Capitol Hill in April examining the re-importation of drugs from Canada. The conference—which took place just days before the Senate Committee on Health, Education, Labor, and Pensions held hearings on Senator Byron Dorgan's (D-N.Dak.) re-importation bill—examined the repercussions of a re-importation policy for American drug safety and for pharmaceutical innovation.

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.



“After sixty years, the United Nations, as we know it, is a failure. . . . [Now it] is being put forward as an alternative to what some see as an emerging pax Americana. If the alternative, the pax UN, were genuine, then there would be much to recommend it. But it is an illusion, and it could be a source of much harm. This demands an unflinching assessment of the performance of the UN. Moreover, it demands that we think through ways that the UN might be overhauled so as to magnify the good that it does and reduce the prospects for damage.”

—JOSHUA MURAVCHIK, from *The Future of the United Nations*

“[Joshua] Muravchik is sensible, experienced, thorough, and fair—and so he is in [The Future of the United Nations]. It is not a ‘UN-bashing’ book, although there is plenty to bash. It is factual, cool, and . . . useful. . . . The author has learned the ways of the UN, becoming a kind of anthropologist of the organization.

“The UN requires a shakeup. . . . Muravchik is for junking the ‘political’ elements of the UN—the Security Council, the General Assembly, the Commission on Human Rights—and retaining the ‘specialized agencies’: the World Health Organization, UNICEF, [the] telecommunication union. This would not ‘abolish’ the UN, but ‘liberalize’ it.”

—JAY NORDLINGER, *National Review*

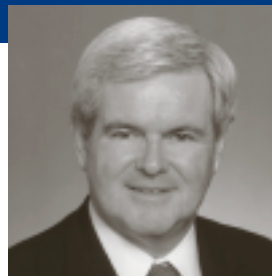
AEI FELLOWS & SCHOLARS



Ted Gayer is a visiting scholar at AEI as well as an associate professor of public policy at Georgetown University. 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 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.



Senior Fellow **Newt Gingrich** focuses his research on health care, information technology, and national security. An underlying theme of his research in these areas is the desire to make government more efficient, and thereby more effective. Mr. Gingrich often testifies before Congress and writes prolifically about these topics. His book *Winning the Future: A 21st Century Contract with America* was published in 2005.



Resident Fellow **James K. Glassman** studies economics, technology, and politics. He is the host of 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 the chairman of Investors Action, a nonprofit organization he co-founded in 2004 to educate and advance the interests of ordinary Americans with financial investments.

**Resident Scholar
Frederick W. Kagan**



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



**Resident Scholar
Michael Rubin**



**Resident Scholar
Gary Schmitt**



**Henry Wendt Scholar
Nicholas Eberstadt**



**Resident Fellow
Dan Blumenthal**



U.S. FOREIGN POLICY

■ In *The Limits of International Law*, published this year by Oxford University Press, Jack Goldsmith and Eric A. Posner of the University of Chicago use economic reasoning and game theory to explain how countries interact. They argue that international law is constantly changing based on international politics and that it is less significant than some officials and legal experts make it out to be.

■ The AEI Press released Joshua Muravchik's *The Future of the United Nations: Understanding the Past to Chart a Way Forward* in September. Rather than elevating the organization's discredited political functions—as the UN's leaders propose—Mr. Muravchik suggests reforming the UN by boosting its humanitarian work and reemphasizing its role as a place where sovereign nations can exchange ideas and form coalitions, while stripping it of the pretensions of world government.

■ Newt Gingrich, Senator Norm Coleman (R-Minn.), Richard Haass of the Council on Foreign Relations, and former under secretary-general of the United Nations Dick Thornburgh convened at an event in September to examine why past attempts at UN reform have failed. This discussion marked the launch of an ongoing series of seminars, organized by Vance Serchuk, on the prospects for UN reform,



“UN Reform: Past, Present, and Future” event in September with Richard Haass, Dick Thornburgh, Senior Fellow Newt Gingrich, Senator Norm Coleman (R-Minn.), and Research Fellow Vance Serchuk

focusing on such topics as the UN Security Council, peacekeeping, and accountability.

■ John Yoo's *The Powers of War and Peace*, published this year by the University of Chicago Press, makes the case for a completely new approach to understanding what the Constitution says about foreign affairs. Looking to American history, Mr. Yoo argues that U.S. presidents have had to act decisively on the world stage without a declaration of war and that they are able to do so because the Constitution grants the president, Congress, and the courts different powers, thus requiring them to negotiate the country's foreign policy. The author also delivered an AEI Bradley Lecture in June about fighting terrorism.

■ Richard Perle, Michael Novak, Michael A. Ledeen, Michael Rubin, and Laurent Murawiec of the Hudson Institute participated in a panel discussion on whether the elections and demonstrations in places like Afghanistan, Lebanon, Iraq, Saudi Arabia, Egypt, Georgia, and Ukraine signified a worldwide democratic revolution, and if so, whether the United States should try to lead or manage it.

AEI FELLOWS & SCHOLARS



Jack Goldsmith is a visiting scholar at AEI as well as a professor at Harvard Law School. Mr. Goldsmith's work for AEI focuses on international law, sovereignty, and intelligence reform. In 2005, he published (along with Eric A. Posner) *The Limits of International Law*, which employs game theory to explain and predict how states interact in order to understand the role of international law.



Michael S. Greve is AEI's John G. Searle Scholar, director of the Institute's Federalism Project, and author of its *Federalist Outlook*. His most recent books are *Harm-Less Lawsuits? What's Wrong with Consumer Class Actions* (2005) and *Competition Laws in Conflict: Antitrust Jurisdiction in the Global Economy* (2004), which he edited with Richard A. Epstein.



Resident Scholar **Robert W. Hahn**, director of the AEI-Brookings Joint Center for Regulatory Studies, analyzes topics ranging from real-estate brokerage laws to mercury regulation. In 2005 he authored *In Defense of the Economic Analysis of Regulation* and edited *Intellectual Property Rights in Frontier Industries: Software and Biotechnology*, both published by the AEI Press.



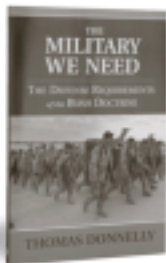
Resident Scholar **Kevin A. Hassett** is the director of economic policy studies at AEI, where he studies tax policy, the U.S. economy, Social Security reform, and the stock market. On these topics he writes for, among others, the *Wall Street Journal*, *National Review Online*, and *Tech Central Station* and in 2005 became a weekly columnist for *Bloomberg.com*. His most recent books include *Toward Fundamental Tax Reform* (2005)—which he coedited and contributed to—and *Bubbleology: The New Science of Stock Market Winners and Losers* (2002).

DEFENSE POLICY

■ In 2005 AEI's monthly *National Security Outlook*, written primarily by Thomas Donnelly, examined topics such as America's alliances; U.S. air power strategy; counterinsurgency strategy and the Iraqi elections; China's anti-secession law and aligning U.S. strategy for the Asia-Pacific region with the fundamental tenets of the Bush Doctrine; the defense transformation in Iraq and Afghanistan; and the historical underpinnings of the Bush Doctrine.

■ This year AEI welcomed Frederick W. Kagan as a resident scholar. A military historian who previously taught at the United States Military Academy at West Point, Mr. Kagan focuses on defense transformation, the defense budget, and defense strategy and warfare.

■ AEI also expanded its work on advanced strategic studies late in the year with the addition of Gary Schmitt as a resident scholar. Mr. Schmitt, formerly the executive director of the Project for the New American Century, writes extensively on intelligence reform.



■ In *The Military We Need*, Mr. Donnelly charts the implications of the Bush Doctrine for the Pentagon's defense strategy, capabilities, and budget and finds an alarming gap between the administration's strategic aims and America's military capabilities. The veteran defense strategist explains why the Pentagon has failed to create the military we need and how force size and structure relate to an effective U.S. strategy. He recommends several key policy changes, including

building new alliances, expanding active-duty personnel, and increasing defense spending.

■ Mr. Donnelly and Mr. Kagan hosted a series of conferences this year devoted to the transformation of the various branches of the military. At these events, scholars and retired military officers discussed questions related to the strategic purposes of the branches; how forces ought to be structured for the missions they face; how large the different branches should be; and what kind of procurement, equipment, and training military personnel need in order to defend against present and future challenges to American national security. Keynote addresses at the respective events were given by General Peter J. Schoomaker, Army chief of staff; Admiral Vern Clark, chief of Naval Operations; General Michael W. Hagee, commandant of the



Former assistant secretary of defense for international security affairs F. J. "Bing" West and Lieutenant General John Sattler of the USMC at "The Future of the United States Marine Corps" event in August

Marine Corps; and General T. Michael Moseley, chief of staff of the Air Force.

■ A May event moderated by Reuel Marc Gerech examined U.S. intelligence reform and the report of the Commission on the Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction. In presenting the report's recommendation, Judge Laurence H. Silberman, co-chairman of the commission, pointed out that many of the CIA's findings, such as their conclusion that Iraq had reconstituted its nuclear weapons program, were "shockingly wrong." While Judge Richard A. Posner criticized the commission for being too critical of the intelligence community, former CIA case officer Lindsay Moran concluded that the report fairly revealed the many problems that existed at the agency.

■ In July, AEI convened a panel of military and Iraqi experts to analyze the prospects for a free and secure Iraq. Following an address by Lieutenant General John F. Sattler of the U.S. Marine Corps, panelists agreed that the future of Iraq required a prolonged struggle against the insurgency. Earlier in the year, Mr. Donnelly hosted a discussion on the implications of the U.S. military's intervention in Iraq for the global war on terror and American foreign policy.

■ AEI organized a conference in Japan at the end of October devoted to helping educate business, military, and civilian decision-makers in Washington and Tokyo about ways to promote the transformation to joint interoperable forces and deepen U.S.-Japanese security cooperation. The event brought together Mr. Donnelly, Danielle Pletka, Nicholas Eberstadt, and Dan Blumenthal, along with respected defense strategists, industry leaders, and military officers from both the United States and Japan.

ASIAN STUDIES



Resident Scholar Kevin A. Hassett, Senior Fellow Newt Gingrich, and Resident Fellow James K. Glassman with former U.S. secretary of energy Spencer Abraham and representatives from the People's Republic of China's Central Committee Party School at an event in May

■ *Asian Outlook*, a bimonthly essay that identifies and analyzes specific topics related to American strategic interests in Asia, debuted in 2005. Authored primarily by Dan Blumenthal, essays considered the revival of the U.S.-Japanese alliance; the importance of strengthening the U.S.-Australian alliance; how to deal with a nuclear North Korea; and the partnership between the United States and India.

■ AEI and the National Defense University teamed up this year to cosponsor a series of seminars on questions related to the growth of Chinese power and influence. Seminars explored such questions as how growing economic integration among China, Taiwan, and the rest of Asia is affecting relationships in the region and which countries will emerge as China's major regional competitors.

■ Experts from the PRC's Central Committee Party School (CCPS) joined AEI scholars and former U.S. secretary of energy Spencer Abraham at a May event discussing the new energy challenges facing the United States and China, as part of AEI's annual meeting with the CCPS.

■ A January event examined Washington's response to the tsunami and the long-term implications of that natural disaster for the developing economies and emerging democracies of Asia.

■ Following the European Union's announced plans to drop the arms embargo that was levied against the People's Republic of China in response to the 1989 Tiananmen Square massacre, AEI hosted a conference on the implications of the Sino-European partnership for American interests.

■ *A New International Engagement Framework for North Korea? Contending Perspectives*, coedited by Nicholas Eberstadt, Ahn Choon-yong of the Korea Institute for International Economic Policy, and Lee Young-sun of Yonsei University (Korea), was released early in the year. The volume examines the issues that would have to be faced if the international community were to resolve to support the economic reform process in North Korea through comprehensive and selective commitments and investments.

■ Joined by representatives of the Japanese and Australian embassies, Mr. Blumenthal hosted a discussion on the revitalization of the U.S.-Japan alliance and the challenge to induce China to play a constructive role in Asia.

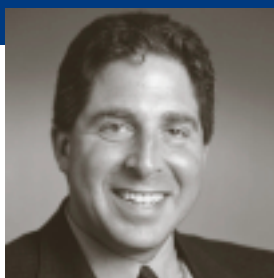
AEI FELLOWS & SCHOLARS



Steven F. Hayward, the F. K. Weyerhaeuser Fellow at AEI, researches environmental policy, political economy, and the presidency. He annually publishes the *Index of Leading Environmental Indicators* (tenth edition, 2005) and frequently contributes to AEI's *Environmental Policy Outlook*. His most recent book is *Greatness: Reagan, Churchill, and the Making of Extraordinary Leaders*, published in October 2005. His other recent books include *The Real Jimmy Carter* (2004) and *The Age of Reagan, 1964-1980* (2001).



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). 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* (2002) and *Common Sense School Reform* (2004). He is the editor of *With the Best of Intentions* (2005) and *Urban School Reform* (2005); and coeditor of *Leaving No Child Behind?* (2004) and *A Qualified Teacher in Every Classroom?* (2004).



R. Glenn Hubbard is a visiting scholar at AEI and dean of Columbia Business School. He studies tax and budget issues, health care policy, international finance, and monetary policy. Mr. Hubbard's writings frequently appear in the *Wall Street Journal* and *Business Week*. He recently contributed to *Toward Fundamental Tax Reform* and cowrote *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*, both published by the AEI Press in 2005.

MIDDLE EAST STUDIES

■ AEI's Dissent and Reform Project seeks to identify intellectual and political reformers in the Middle East and provide them with new forums for debate in their own and neighboring homelands as well as in the United States. The project held a number of meetings in 2005 with opposition leaders from the region and launched a website to encourage a continuing dialogue among project participants on the prospects and obstacles to democratic reform and economic freedom in the Arab world.

■ Several AEI events in 2005 focused on political and strategic developments in Iraq. A January event with Danielle Pletka, Reuel Marc Gerecht, and Michael Rubin focused on the Iraqi elections. A panel discussion in July, led by Thomas Donnelly and Frederick W. Kagan, explored the challenges of nation-building while simultaneously combating an insurgency. In October, shortly before the Iraqi constitutional referendum, Ms. Pletka hosted a full-day conference examining the successes and failures in the remaking of Iraq. Among the participants were representatives of the Iraqi government and political parties, including Munthir Al Fadhil of the Constitutional Commission; Mustafa Safwat Rashid Sidqi of the Independent Election Commission of Iraq; and Rend Rahim, former ambassador-designate from Iraq to the United States.

■ A 2005 Freedom House report revealed that Saudi Arabia disseminated "hate propaganda" encouraging Muslims in America to treat Christians and Jews as enemies. Ms. Pletka and Visiting Scholar Hedieh Mirahmadi hosted a discussion in February with R. James Woolsey of Freedom House and Nina Shea of the Center for Religious Freedom on the larger implications for U.S.-Saudi relations.



Resident Fellow Reuel Marc Gerecht



Mishkat Moumin, former Iraqi minister for environment

■ Richard Perle and Mr. Rubin led a June event on the establishment of defensible borders for Israel in the wake of the Gaza withdrawal, especially with regard to the West Bank, and whether the international community can find answers that will satisfy the political and security requirements of both Israel and the Palestinians.

■ U.S. relations with Turkey have been strained in recent years by the rise of the Islamist Justice and Development Party (AKP) and Turkey's failure to support the 2003 invasion of Iraq. In March, Mr. Perle and Mr. Rubin participated on a panel with Robert Pollock of the *Wall Street Journal* and Murat Mercan of the AKP examining whether the U.S.-Turkish relationship could be repaired. Mr. Rubin also visited Turkey several times in 2005 and published a series of articles that exposed serious corruption allegations within the AKP, which resulted in a parliamentary commission to investigate the charges.

■ Nicholas Eberstadt and Laura M. Kelley's coauthored study "Behind the Veil of a Public Health Crisis: HIV/AIDS in the Muslim World," published in June by the National Bureau of Asian Research, warned that in the years immediately ahead, the AIDS pandemic is all but sure to exact a grim toll in the Muslim world, a place unlikely to cope well with the significant social stresses and economic burdens of the disease.

■ In *Eternal Iran: Continuity and Chaos* (Palgrave MacMillan, 2005), Mr. Rubin and Patrick Clawson of the Washington Institute for Near East Policy explore the development of modern Iran and explain the political, economic, and social trends that first led to the Islamic revolution.

■ Michael A. Ledeen moderated a seminar in October on the efforts of opposition groups to bring an end to the Iranian regime. The panel, which included representatives from Iran's various ethnic groups, was one of the first examples of a collective effort among Iranian pro-democratic opposition groups.

Lieutenant General David H. Petraeus, commander of the Multi-National Security Transition Command in Iraq



DEVELOPING WORLD STUDIES

■ Former AEI research associate Vance Serchuk was promoted to a research fellow at the Institute in 2005. After working for two years with Thomas Donnelly on defense policy, Mr. Serchuk is now focusing on international organizations and the overlap between strategic studies and economic development, particularly reconstruction in Afghanistan and Iraq.

■ Roger Bate organized a conference in February to discuss the devastating health and economic crises in Zimbabwe and the tyranny of its president, Robert Mugabe, whose rule, Mr. Bate argues, is systematically destroying the country. Panelists, including Thomas M. Woods of the U.S. Department of State, examined current and possible future policies toward the Mugabe regime.

■ Roger F. Noriega joined AEI as a visiting fellow in 2005 and is launching a series of conferences and publications on strengthening democratic institutions and encouraging economic reforms in Latin America.

■ Zalmay Khalilzad, then-U.S. ambassador to Afghanistan, spoke at AEI in March about the U.S.-Afghan partnership. Arguing that military and security cooperation between the two countries was expanding and remained integral to the war on terror, he expressed hope that the alliance would be the center of a regional economic integration initiative to modernize the greater Middle East and Central Asia.



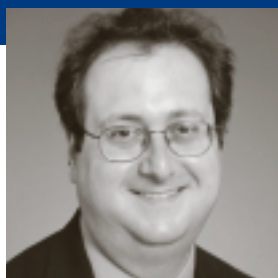
U.S. ambassador to Iraq Zalmay Khalilzad

■ As world leaders met in Gleneagles, Scotland, to debate climate change and the plight of Africa, AEI convened a panel of experts to discuss Prime Minister Tony Blair's plans. While Johannes Linn of the Brookings Institution advocated expanding the G-8, Claude E. Barfield said multinational groups like the G-8 are ineffective at resolving global economic issues and actions concerning issues such as global warming must be taken at the nation-state level.

■ A May conference examined the effect of wireless telecommunications on economic development in Africa. Participants explored recent empirical findings that mobile communication services have stimulated economic growth in developing countries.

■ Following the crackdown by Uzbek troops on civilian protesters in May, Leon Aron moderated a panel discussion on whether the Bush administration should continue to partner with President Islam Karimov's government in the war on terror and what the implications of a shift in U.S. policy would be for Uzbekistan's internal politics as well as the stability of Central Asia.

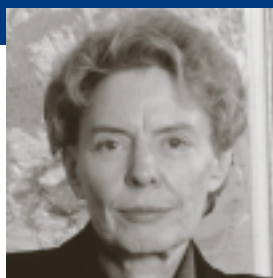
AEI FELLOWS & SCHOLARS



Frederick W. Kagan left the U.S. Military Academy at West Point this year to join AEI as a resident scholar. He specializes in defense transformation and spending, as well as strategy and warfare. His writing has appeared in the *Los Angeles Times*, the *Wilson Quarterly*, and the *Washington Post*, and he contributes to AEI's *National Security Outlook*.



Leon R. Kass, M.D., is AEI's Hertog Fellow and former chairman of the President's Council on Bioethics (resigned October 2005). Dr. Kass studies bioethics, marriage, family, and social mores—subjects on which he has written for numerous publications, including *The New Atlantis*, *The Public Interest*, and the *Wall Street Journal*. 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); and *The Ethics of Human Cloning* (1998, with James Q. Wilson).



Jeane J. Kirkpatrick, former U.S. ambassador to the United Nations, is a senior fellow at AEI. She 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 Wübering Away of the Totalitarian State . . . and Other Surprises* (1990).



Desmond Lachman is a resident fellow who researches emerging market economies, their exchange rates, and their arrangements with 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's *Análitica*, the *Australian Financial Review*, and the *Washington Post*. He is the coauthor of *Economic Policies for a New South Africa* (1992) and the editor of *Challenges to the Swedish Welfare State* (1995).

EUROPEAN POLICY STUDIES

■ In 2005, AEI's *European Outlook*, a bimonthly essay devoted to European affairs and their bearing on transatlantic policy issues, considered issues such as the crisis of "civilizational morale" in Europe; the impact of Ukraine's "Orange Revolution" on other peoples of the former USSR; and whether Europe can do away with nationalism.

■ At the end of January, the Council of the European Union suspended diplomatic sanctions against Cuba and decided to resume high-level relations with the Castro government, thus ending its long-held policy to speak only with Cuban dissidents. In March, Radek Sikorski, director of AEI's New Atlantic Initiative (NAI), convened a panel of experts on EU affairs and Cuban policy to discuss what effect the European policy change could have within Cuba. Arlette Conzemius and Juan José Buitrago de Benito of the Spanish embassy stated that European policy toward Cuba was aimed at improving the human rights situation there, not at changing Cuba's political system.

■ The NAI co-hosted a conference in the Netherlands that examined Islam in Europe. Mr. Sikorski, Danielle Pletka, Reuel Marc Gerecht, and Michael Rubin joined leading American and European scholars in a series of panel discussions to assess the course of Muslim integration in Europe and the United States.

■ A panel discussion in June with Mr. Sikorski, David Frum, Wim Geerts of the Dutch embassy, Denis Pietton of the French embassy, and Adam Posen of the Institute for International Economics focused on the French and Dutch rejection of the proposed European Union Constitution and the implications for the future of Europe.



Resident Fellow Radek Sikorski moderating a June debate between Sabine Herold and Charles Kupchan on the European economic model

■ Mr. Sikorski organized a full-day conference in Gdansk, Poland, in August to honor the twenty-fifth anniversary of the Solidarity movement. Reflecting on how Poland's self-limiting revolution was accomplished and how those lessons can be applied to nascent democratic movements around the world today, the conference featured a series of eight panel discussions addressing issues ranging from democratic change in the Middle East to reform in Russia and Cuba. Former U.S. national security adviser Zbigniew Brzezinski's keynote address capped off this assembly of politicians, scholars, and advocates of freedom. In the fall, Mr. Sikorski left AEI after winning election to the Polish senate and was appointed as that nation's defense minister.

■ The NAI hosted special lectures and discussions throughout the year with European political officials such as Viktor Orbán, former prime minister of Hungary; Pascal Lamy, former commissioner for trade at the European Commission and now WTO director-general; Boris Tarasyuk, acting foreign minister of Ukraine; and Juan F. López Aguilar, minister of justice of Spain.

■ AEI's quarterly *Russian Outlook*, written by Leon Aron, analyzes key issues in the economic, social, and political aspects of Russia's transition to democracy. In 2005, issues considered the risks President Vladimir Putin assumed in strengthening the Russian state at any cost; the conflicting elements of authoritarianism and democracy in Russia's institutions; and the Russian draft.

■ After years of progress toward liberal democracy, capitalism, and international cooperation, Russia may once again be a strategic problem for the United States and its allies. A conference in February organized by Mr. Aron examined what the strategic priorities of the U.S. relationship with Moscow should be and whether Washington can stand up to President Putin's rising authoritarianism while still cooperating with him on counterterrorism, nonproliferation, and energy security. In October, Mr. Aron hosted a full-day conference to consider what this "authoritarian drift" means for the future of Russia's political, economic, and foreign policies.

World Bank Group president Paul Wolfowitz and former president of Spain José María Aznar



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 not only 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.



"One Nation Under Therapy is a strident wake-up call to Americans both stupefied and 'stupidified' by licensed psychology—the mental health industry's most zealous cult. Americans are brainwashed by psychologists, who sentence them to become lifelong victims of their own experiences and consciousness. This book offers paradigms that celebrate voyages of the soul, instead of diagnosing them as incurable 'illnesses.'"

—LOU MARINOFF, author of *Plato Not Prozac* and *Therapy for the Sane*

"[Christina Hoff] Sommers and [Sally] Satel have written an important book that should be widely read. Their analysis of the baneful consequences of narcissism and self-absorption is a powerful critique."

—DIANE RAVITCH, author of *The Language Police*

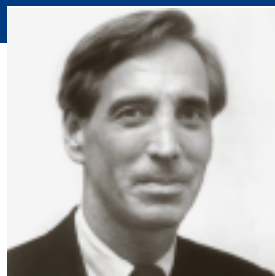
"A gauntlet-throwing assessment of the culture of therapy . . . certain to spark reflection and conversation."

—KIRKUS REVIEWS

AEI FELLOWS & SCHOLARS



Freedom Scholar **Michael A. Ledeen** studies Iran, the Middle East, Italy, U.S.-China relations, Africa, intelligence, and state sponsorship of terrorism. He is a contributing editor of the National Review Online, for which he frequently writes about the struggle for freedom taking place in Iran. His books include *The War against the Terror Masters* (2002); *Tocqueville on American Character* (2000); and *Freedom Betrayed: How America Led a Global Democratic Revolution, Won the Cold War, and Walked Away* (1996).



Visiting Scholar **Adam Lerrick** studies international capital markets, international financial crises, sovereign debt restructuring, and economic development. He is currently the Friends of Allan H. Meltzer Professor of Economics and the director of the Gailliot Center for Public Policy at Carnegie Mellon University as well as an adviser to the Congressional Joint Economic Committee. His work has appeared in the *Wall Street Journal*, the *Cato Journal*, and the *Financial Times*.

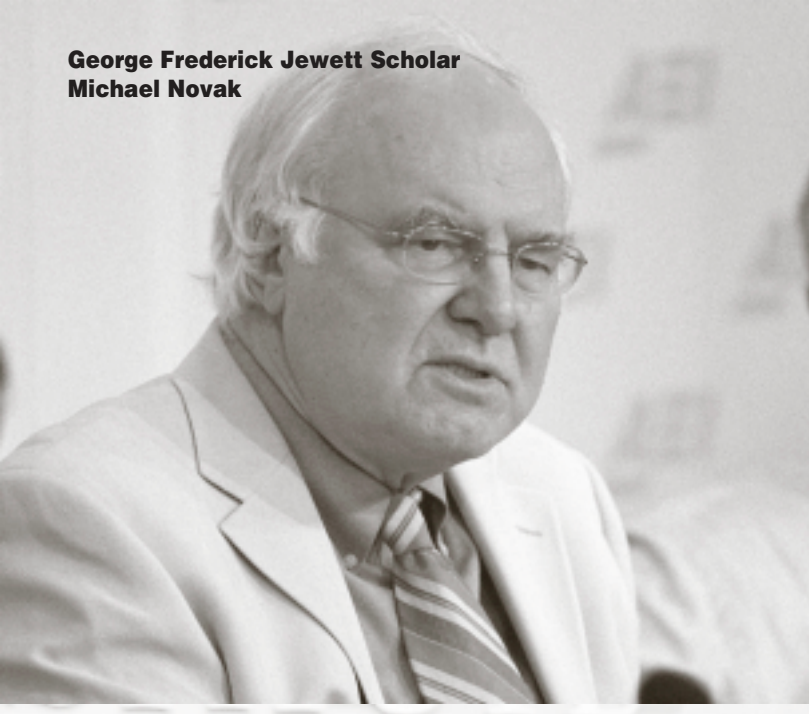


Former ambassador to China and South Korea, Senior Fellow **James R. Lilley** writes on political and security developments in East Asia. His most recent book is *China Hands: Nine Decades of Adventure, Espionage, and Diplomacy in Asia* (2004). Written with his son, it recounts his family's service in Asia and his experiences as a CIA agent and diplomat. Ambassador Lilley 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).

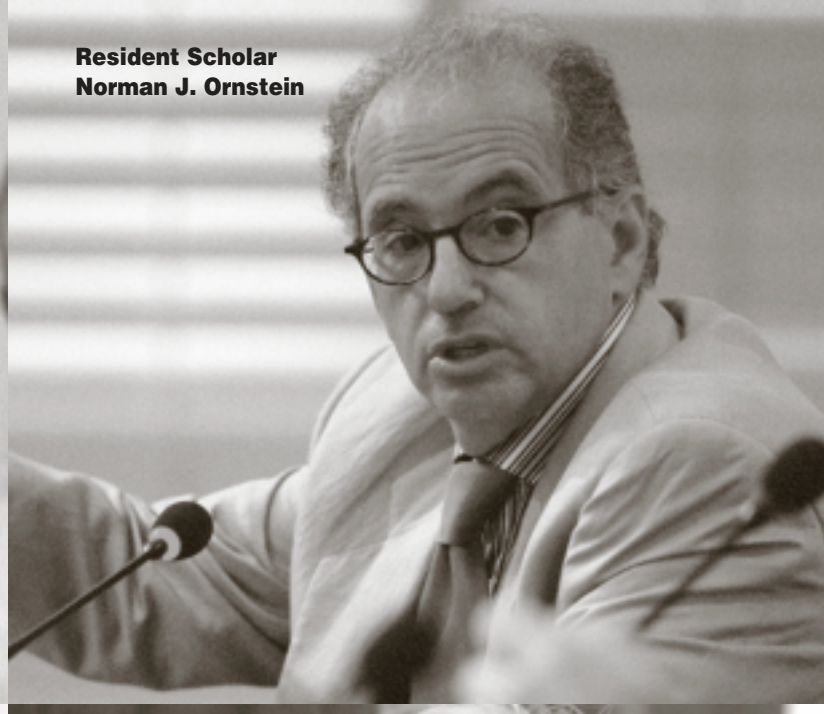


Resident Scholar **John R. Lott Jr.** researches crime and gun control, voting and legislative behavior, and civil liability. He is the author of *The Bias against Guns: Why Almost Everything You've Heard about Gun Control Is Wrong* (2003); *More Guns, Less Crime: Understanding Crime and Gun Control 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*.

**George Frederick Jewett Scholar
Michael Novak**



**Resident Scholar
Norman J. Ornstein**



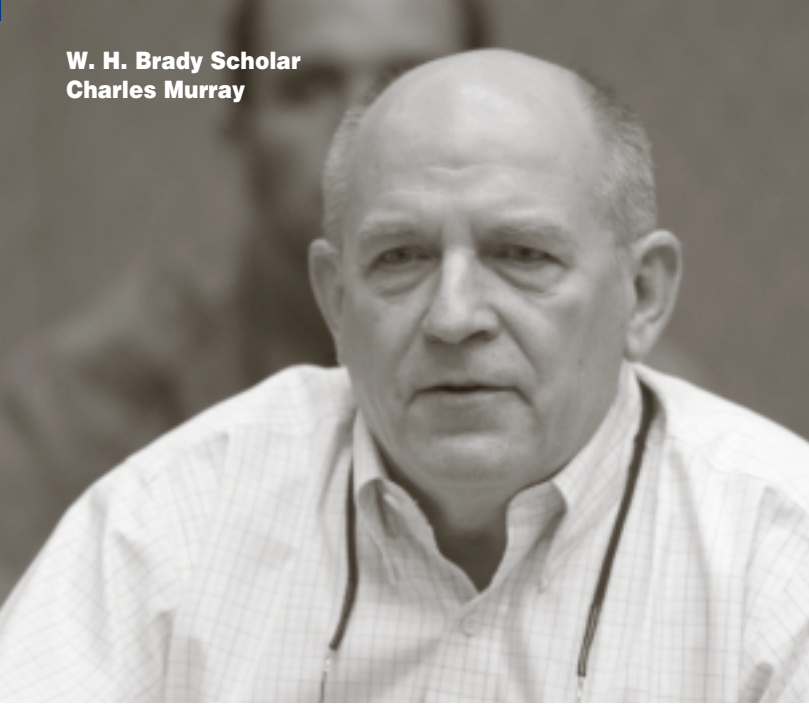
**John G. Searle Scholar
Michael S. Greve**



**Resident Scholar
Sally Satel**



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



**Resident Scholar
Frederick M. Hess**



POLITICAL STUDIES

■ In 2005, AEI's Political Corner—Karlyn H. Bowman, John C. Fortier, Norman J. Ornstein, and Ben J. Wattenberg—launched *Political Report*, a monthly newsletter featuring commentary, polling data, and other information and analysis about current political debates. Topics examined this year include Social Security reform, President George W. Bush's ratings, and the war in Iraq.

■ In February, Mr. Ornstein organized a panel discussion with Edwin Meese of the Heritage Foundation, Thomas Mann of the Brookings Institution, and Lee H. Hamilton of the 9/11 Public Discourse Project that considered the role of the 109th Congress in meeting the national security challenge posed by Islamist terrorism. Panelists addressed topics related to executive restructuring and committee jurisdiction; the provision of effective oversight of intelligence and homeland security; and the 9/11 Commission's recommendations regarding Congress.

■ Representative Mike Pence (R-Ind.) and Newt Gingrich discussed the future of conservatism at a June conference. Congressman Pence emphasized that the conservative movement needs to be dedicated to the principles of individual liberty and against the notion that government is the cure for every social ill. Mr. Gingrich urged Republicans to transform the highly bureaucratic government to one that allows people to engage local authorities and make decisions about matters like education.



David Gergen of *U.S. News and World Report* and Dan Balz of the *Washington Post* at the "How Is Bush Governing in His Second Term?" event in July

■ With Mr. Fortier moderating, Mr. Ornstein joined David Gergen of *U.S. News and World Report*, Dan Balz of the *Washington Post*, and David Sanger of the *New York Times* on a panel in July examining how President Bush was governing six months into his second term.

■ Ms. Bowman continued publishing and updating the AEI Public Opinion Studies this year, introducing a new study on Social Security reform and updating studies on public opinion regarding the war on terrorism, the war in Iraq, taxes, the environment, and gay marriage.

■ After the 2000 election controversy, Messrs. Ornstein and Fortier started to monitor the steps that were being taken to improve the way U.S. elections are conducted. They secured support for a new four-year project on election reform. Jointly directed by the Brookings Institution, the project will examine changes in election procedures over the next two election cycles and make recommendations for improvements.

AEI FELLOWS & SCHOLARS



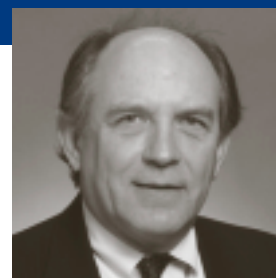
Visiting Scholar **John H. Makin**, who writes the Institute's monthly *Economic Outlook*, examines tax and budget issues, monetary policy, international finance, and U.S. economic relations with Japan and China. His books include *Debt and Taxes: How America Got into Its Budget Mess and What to Do about 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).



Resident Scholar **Joshua Muravchik** studies democracy and the many causes—diplomatic, institutional, cultural, and otherwise—that hinder or advance its spread around the world. He is most recently the author of *The Future of the United Nations: Understanding the Past to Chart a Way Forward* (2005). Additional books include *Heaven on Earth: The Rise and Fall of Socialism* (2002); *The Imperative of American Leadership: A Challenge to Neo-Isolationism* (1996); and *Exporting Democracy: Fulfilling America's Destiny* (1991).



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. In 2005 he completed *In Our Hands: A Plan to Replace the Welfare State*, which the AEI Press will publish in March 2006.

SOCIAL AND CULTURAL ISSUES

■ *One Nation under Therapy: How the Helping Culture Is Eroding Self-Reliance*, by Christina Hoff Sommers and Sally Satel, was released by St. Martin's Press this year. In recent decades a therapeutic ethic has arisen that views people as emotionally underdeveloped, psychically frail, and requiring the ministrations of mental health professionals to cope with life's vicissitudes. The authors draw on established science and common sense to reveal how "therapism" and the burgeoning trauma industry have come to pervade our lives. Help is offered everywhere under the presumption that everyone needs it, but with this help come troubling consequences: the loss of moral bearings in our approach to lying, crime, and addiction; the myth of depressed schoolchildren in need of therapy; and the expansion of post-traumatic stress disorder.

■ A March conference considered the various issues that have arisen in the United States and abroad in response to federal stem cell policy and to recent state initiatives. Dr. James Battey of the National Institutes of Health Task Force on Stem Cell Research spoke about the current challenges and future promise of human embryonic stem cells; Francis Fukuyama of the School of Advanced International Studies (SAIS) at Johns Hopkins University gave the luncheon keynote address, entitled "Beyond Bioethics: New Approaches to the Governance of Human Biotechnology"; and panelists discussed state models and private as opposed to public financing of this research.

■ At a W. H. Brady Program in Culture and Freedom event in May, Camille Paglia spoke about the culture wars, focusing on the politicization of American universities and the maligning of Western civilization by campus theorists "addicted to French or German ideas that have

no relevance to American culture." She discussed the need to study the Bible, the mediocrity of current popular culture, and the decline of public education.

■ The AEI Press this year released David Farabee's *Rethinking Rehabilitation: Why Can't We Reform Our Criminals?* In this monograph, Mr. Farabee argues that most rehabilitation programs have little or no lasting impact on ex-convicts' tendency to lapse into previous behaviors. The author contends that closer monitoring of parolees, swift application of sanctions, and indeterminate community supervision—the completion of which would be tied to the offender's performance—are far more humane than the progressive approaches that are more popular today.

■ For almost four decades, the federal poverty measure has been the primary statistic by which the extent of poverty is measured and by which federal, state, and local governments allocate social welfare benefits. AEI scholars Douglas Besharov and Nicholas Eberstadt are directing the Institute's involvement in a substantial research project to identify alternate approaches to gauging the well-being of low-income Americans. The University of Maryland and the U.S. Departments of Commerce and Health and Human Services are also involved.

■ Leon R. Kass stepped down as chairman of the President's Council on Bioethics in October, at the completion of his second term as chair. He remains a member of the council, but looks forward to being in residence at AEI and devoting more time to his own writing.

■ This year Hay House published *In Real Life: Powerful Lessons from Everyday Living*, vivid vignettes about work, family, friendship, and the lives of ordinary Americans, edited by Karl Zinsmeister with Karina Rollins. A strong attachment to tradition, a deep reliance on God, an overriding preference for family, and an abundant good sense and good cheer are evident among the teachers, farmers, businessmen, doctors, and soldiers who tell their stories.

■ In June, a W. H. Brady Program in Culture and Freedom conference explored the new "neuromorality"—what recent findings in neuroscience tell us about the ability of people to make moral judgments or reasoned decisions. Steven Pinker of Harvard University gave the keynote address about the concept of responsibility in this age of cognitive neuroscience.



Resident Fellow David Frum

Harvard University professor Steven Pinker at "The New Neuromorality" event in June



Camille Paglia at a W. H. Brady Program event on art, politics, and religion in May



EDUCATION POLICY

■ In recognition of the twenty-fifth anniversary of the Department of Education, former secretaries of education William Bennett, Senator Lamar Alexander (R-Tenn.), and Rod Paige joined Andrew Rotherham, former education adviser to President Bill Clinton, on a panel in September considering lessons learned about crafting federal education policy.

■ In October 2005, Harvard Education Press released Frederick M. Hess's *With the Best of Intentions: How Philanthropy Is Reshaping K-12 Education*. The book brings together researchers and practitioners who examine the role of philanthropy in K-12 education and the extent of private funding.

■ *Urban School Reform: Lessons from San Diego*, edited by Mr. Hess and published this year by Harvard Education Press, is a compilation of essays addressing critical issues in urban school reform. The book considers the recent reforms in San Diego schools under Superintendent Alan Bersin, which resulted in a full-scale assessment of urban reform movements. Shortly after being appointed state education secretary by California governor Arnold Schwarzenegger, Mr. Bersin joined Mr. Hess and other contributors to the volume at an AEI book forum.



Former secretaries of education Sen. Lamar Alexander (R-Tenn.) and Rod Paige with Andrew Rotherham, former education adviser to President Bill Clinton, at “The Department of Education Twenty-Five Years Later” event in September

■ Mr. Hess, who directs education policy studies at AEI, organized an off-the-record policy luncheon in the Rayburn House Office Building on Capitol Hill in June to discuss the San Diego experiment. Jane Hannaway of the Urban Institute, who contributed to *Urban School Reform*, joined him for the discussion.

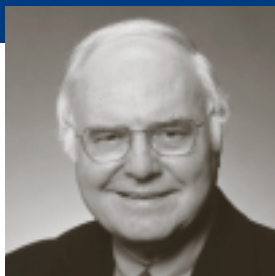
■ Mr. Hess published two education studies this year through the Program on Education Policy and Governance at Harvard University: “Learning to Lead? What Gets Taught in Principal Preparation Programs” and “Textbook Leadership? An Analysis of Leading Books Used in Principal Preparation.” Experts discussed the studies’ findings at an event in May.

■ An all-day conference in November examined educational entrepreneurship in K-12 education. Five panels analyzed the current landscape and what lessons experience may teach for harnessing entrepreneurial energy.

AEI FELLOWS & SCHOLARS



Visiting Fellow **Roger F. Noriega** came to AEI in the fall of 2005, after serving as assistant secretary in the Bureau of Western Hemisphere Affairs in the State Department. He coordinates the Institute’s program on Western Hemisphere issues and will be the primary author of the *Latin American Outlook*, to be revived as a bimonthly in 2006.



Michael Novak is the George Frederick Jewett Scholar in Religion, Philosophy, and Public Policy. His research focuses on the three systems of the free society: the free polity, the free economy, and the culture of liberty. The most recent of his nearly four-dozen books are *The Universal Hunger for Liberty* (2004); *On Two Wings* (2001); and *God’s Country* (2000).



Resident Scholar **Norman J. Ornstein** studies politics, Congress, and elections—writing about all three in his weekly *Roll Call* column. He is founder and director of the Campaign Finance Reform Working Group and the author or editor of several books on American politics and political institutions, including *The Permanent Campaign and Its Future* (2000, coedited with Thomas E. Mann).



A former assistant secretary of defense for international security policy, 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 2005, Ted Frank joined AEI as a resident fellow and director of the Liability Project. Previously a litigator with O'Melveny & Myers, Mr. Frank is studying liability reform in areas like product liability, medical malpractice, class action, corporate regulation, and antitrust and patent litigation.

■ Under the leadership of Michael S. Greve, the Institute's John G. Searle Scholar, AEI's Federalism Project promotes a genuine, vibrant federalism. The flagship publication of the project is the *Federalist Outlook*, authored by Mr. Greve.

■ A May conference organized by Mr. Greve examined the issue of state and local government's providing tax incentives, credits, or exemptions to attract business, prompted by a federal appeals court decision in *Cuno v. DaimlerChrysler*. Two panels of economists and legal experts considered whether the court's decision was correct; whether tax incentives and exemptions were a healthy form of state competition; and what, if anything, should be done to regulate state policy in this area.

■ Bradford L. Smith of Microsoft Corporation made a presentation in March at a conference exploring the problems of the patent system and proposals for improving it. In the face of new challenges brought on by globalization, he argued that patent law reform needs to address four areas: patent quality that keeps pace with the increase in patent quantity; excessive and abusive litigation; international patent harmonization; and increased accessibility for individual inventors in small companies worldwide.

■ The Federalism Project celebrated the hundred-year anniversary of *Lochner v. New York*—the case in which the Supreme Court discovered a right to contract in the Fourteenth Amendment and invalidated a New York statute setting maximum working hours for bakery employees—



Visiting Scholar Jack Goldsmith



Visiting Scholar John Yoo

with a panel examining the case's legacy. Conservatives denounce the case as "substantive due process" run wild, paving the way for *Roe v. Wade* and its offspring. Liberals criticize the *Lochner* Court's perceived attempt to write laissez faire economics into the Constitution. David E. Bernstein of George Mason University School of Law, Jeffrey Rosen of George Washington University School of Law, and G. Edward White of the University of Virginia School of Law discussed whether the case deserved its reputation.

■ Senator Lamar Alexander (R-Tenn.) and Representative Roy Blunt (R-Mo.) participated on a panel in June discussing the legislation they introduced to curtail and amend federal court consent decrees, which subject the state administration of federal programs to ongoing judicial oversight and management.

■ Nina Totenberg of National Public Radio, Robert Nagel of the University of Colorado Law School, Neil Siegel of Duke Law School, and Jonathan H. Adler of Case Western Law School reviewed this year's Supreme Court decisions at a Federalism Project event in June, addressing such issues as the Commerce Clause in light of the medical marijuana case; the Takings Clause in light of the year's property rights cases; and whether we have witnessed the emergence of a Stevens Court.

■ Mr. Greve's *Harm-Less Lawsuits? What's Wrong with Consumer Class Actions*, published this year by the AEI Press, describes the origins of consumer class actions and analyzes their theoretical and practical problems. It concludes that a viable reform agenda must focus not solely on courts and common law tort, but rather on the statutory laws that give rise to those actions. To protect against the massive risk of excessive enforcement and deterrence, the private enforcement of consumer protection laws should be closely tied to traditional common law requirements of detrimental reliance and loss causation.

Jonathan H. Adler and Nina Totenberg at the "Fifth Annual Supreme Court Review" event in June



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, government relations, 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 topic it addresses.

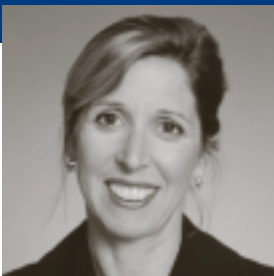
The following pages highlight various means by which AEI disseminates the ideas and findings of its scholars and otherwise contributes to public policy discourse. In addition, AEI distributes a monthly newsletter, executive summaries of its books and conferences, and reprints of the best general-interest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



publish. The Institute also publishes monthly reports on developments in the U.S. and world economies, on national security issues, and on financial services; bimonthly reports on environmental policy, on health policy, and on European affairs; a quarterly report on Russia's transition to democratic capitalism; and occasional reports on issues germane to federalism. In 2005, the bimonthly *Asian Outlook* debuted, and the

Latin American Outlook will return as a bimonthly in 2006. The Institute continues to tailor its electronic communications efforts, 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



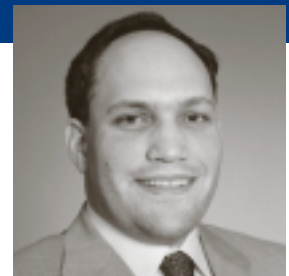
Danielle Pletka is vice president for foreign and defense policy studies at AEI, overseeing the Institute's research, publications, seminars, and conferences concerned with defense, security, and foreign policy issues. Her own research focuses on the Middle East, South Asia, terrorism, and weapons proliferation. She has published articles on these topics in publications including the *Financial Times* (London), the *New York Times*, the *International Herald Tribune*, the *Jerusalem Post*, and the *Los Angeles Times*.



Resident Fellow **Alex J. Pollock** researches 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 and is an economic adviser to the World Bank, a position he has held since 1975. 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); and *Trade Policies in Latin America and the Caribbean: Priorities, Progress, and Prospects* (1997).



Resident Scholar **Michael Rubin** studies Middle East policy, focusing on domestic politics in Iran, Iraq, and Turkey; Kurdish society; and Arab democracy. He is the coauthor of *Eternal Iran: Continuity and Chaos* (2005) and author of *Into the Shadows: Radical Vigilantes in Khatami's Iran* (2001). In addition to his writings in the *Middle East Quarterly*, of which he is the editor, he has published in *National Review*, the *Washington Post*, and the *Turkish Policy Quarterly*.

THE AMERICAN ENTERPRISE

■ *The American Enterprise*, AEI's acclaimed magazine of politics, business, and culture, continues to reach a broad, nationwide audience by presenting serious and complex topics in readable and visually compelling forms. While most of its competitors in current-events journalism concentrate on conventional, inside-the-Beltway wisdom, *The American Enterprise* includes perspectives from all across the country.

■ In 2005, featured articles included an investigation of how political correctness has undermined policing in Los Angeles and other U.S. cities; a comparison of nuclear power versus hydrogen power by William Tucker; a discussion of the pros and cons of space travel by Freeman Dyson, Robert Zubrin, and others; a profile of America's religious colleges by *Wall Street Journal* editor Naomi Riley; an examination of the case for Social Security reform; an assessment of the power of freedom by former Soviet dissident Natan Sharansky; and a broad look at economic and cultural problems in Europe.

■ Editor in chief Karl Zinsmeister and the magazine's staff have enlisted some of the country's liveliest and most insightful writers to explore topics critical to understanding America and its role in the world. New regular monthly columnists in 2005 included military historian Victor Davis Hanson, who writes on geopolitics, and reviewer James Lileks, who covers television.

■ Among the many AEI scholars who contributed essays to *The American Enterprise* this year are James K. Glassman, Ben J. Wattenberg, Danielle Pletka, Thomas



TAE editor in chief Karl Zinsmeister

Donnelly, James R. Lilley, Joshua Muravchik, Leon Aron, Charles Murray, and Michael Novak.

■ *The American Enterprise's* in-depth Q&A interviews continue to be a trademark of the magazine. In 2005, participants included former Swift Boat veteran John O'Neill, Judge Edith Jones, former solicitor general Theodore Olson, cultural observer Michael Medved, movie director Randall Wallace, and presidential historian Richard Norton Smith.

■ Published in September, *In Real Life: Powerful Lessons from Everyday Living* is a collection of articles culled from the magazine's archives. Edited by Mr. Zinsmeister with Karina Rollins, and with an introduction by best-selling author Dr. Laura Schlessinger, *In Real Life* brings readers true accounts of work, family relations, friendship, and the moral challenges Americans face every day.

■ For 2006, *The American Enterprise* has launched a significant expansion effort that will result in more frequent publication and improved journalism. The magazine will begin a monthly publication schedule, with two combined issues at the winter and summer holiday seasons. A number of new staffers have been hired for the magazine's Washington, D.C., office.

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, www.aei.org. During the first three quarters of 2005, the website had more than 3 million external visits and more than 20 million external page viewings, up 33 and 71 percent, respectively, from the same period last year.

■ In 2005, AEI added a “Featured Topic” section to the top of the homepage. This section brings together in one place AEI’s work on a current topic in the news, such as the Bush administration’s new Supreme Court nominations, UN reform, or Gulf Coast rebuilding. The homepage redesign helps visitors find what they need on timely topics in a more efficient manner. Each week, articles referenced in the “Featured Topic” section are among the most viewed pages on the website.

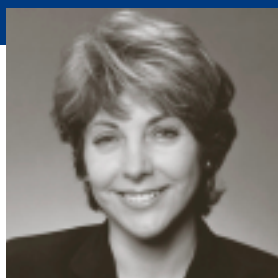
■ AEI implemented a number of important upgrades to improve website navigation. Within each section of the site, the “Browse by” menu was moved to directly under the Search box, and the Search box was changed so that users can search either the whole website or just one particular section. The “News & Commentary,” “Publications,” and “Shop AEI” tabs were replaced by “Short Publications” and “Books.” An e-newsletter signup box was added to the bottom of the left-hand menu on nearly every page.

■ The AEI website is an important means of reaching potential donors—the corporations, foundations, and individuals that together provide more than 70 percent of the Institute’s support. The website highlights the Institute’s “planned giving” arrangements, which permit donors to achieve personal and family financial goals while providing substantial current or future support of AEI. It also provides access to the Associates Program, an introductory donor program that allows members to tap into the same intellectual resources depended upon by countless government officials, business executives, and journalists.

■ A modification to the website permitted AEI to transition from a paper application system to an online database application system for jobs and internships. The new system creates an efficient flow of information, permitting the Institute’s human resources personnel to search for skill sets with greater specificity and to gather complete records for all applicants.

■ 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 Liability Project subsite offers extensive information about upcoming and past events, recent publications, and liability issues in the news.

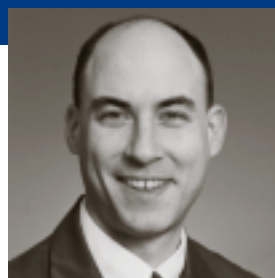
AEI FELLOWS & SCHOLARS



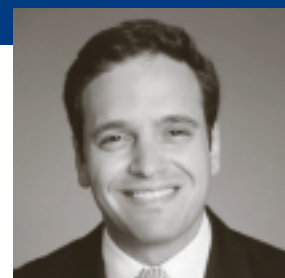
Sally Satel, M.D., is a resident scholar at AEI and a practicing psychiatrist. She studies domestic drug policy, mental health policy, and political trends in medicine. Her essays have appeared in medical journals as well as in *Commentary*, the *Wall Street Journal*, the *New York Times*, the *Washington Post*, and the *Los Angeles Times*. Dr. Satel is most recently the author of *One Nation under Therapy: How the Helping Culture Is Eroding Self-Reliance* (2005, with Christina Hoff Sommers). Among her other books is *PC, M.D.: How Political Correctness Is Corrupting Medicine* (2000).



Resident Scholar **Gary Schmitt** joined AEI in late 2005, becoming director of the Institute’s new Program on Advanced Strategic Studies—an initiative that will focus on critical long-term issues affecting American national security. Mr. Schmitt previously served as executive director of the Project for the New American Century (PNAC). He is most recently the author of “Truth to Power? Rethinking Intelligence Analysis,” which appeared in *Future of American Intelligence* (2005), and coauthor of *Silent Warfare: Understanding the World of Intelligence* (2002).



Visiting Fellow **Joel Schwartz** researches air pollution and chemical risks to the environment. The author of *No Way Back: Why Air Pollution Will Continue to Decline* (2003), he is a contributor to AEI’s bimonthly *Environmental Policy Outlook* and frequently writes articles for *Tech Central Station* and other publications.



Research Fellow **Vance Serchuk** studies international organizations and the overlap between strategic studies and economic development policy, in particular post-conflict reconstruction in Afghanistan and Iraq. A contributor to AEI’s *National Security Outlook*, he has written for the *Wall Street Journal*, the *New York Times*, and *The Weekly Standard*, among others.

THE AEI PRESS

■ Although AEI's scholarship contributes to the public policy debate in many ways, no forum is more important than the books that AEI scholars publish. The AEI Press produces books and monographs by leading policymakers and scholars on subjects ranging from economics to foreign affairs, politics, and a host of social issues. The following is a selection of highlights from the AEI Press's publications in the last year.

■ *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*, by John F. Cogan, R. Glenn Hubbard, and Daniel P. Kessler—published this year in conjunction with the Hoover Institution—is a landmark study of how to improve health care in America through simple, incremental reforms that would allow the marketplace to function properly. Reforming the tax code, health insurance, and the malpractice system and controlling anticompetitive behavior would reduce health-care costs by \$60 billion per year, provide insurance to at least 6 million more Americans, and improve the quality of care.



■ In anticipation of the report of the president's advisory panel on tax reform, Kevin A. Hassett and University of California–Berkeley professor of economics Alan Auerbach brought together nine leading scholars of taxation to discuss the most important questions in this field. The result of their efforts was published in May as *Toward Fundamental Tax Reform*. This volume is dedicated to, and contains the last work of, a longtime friend of AEI, Princeton University economist David F. Bradford, who died as a result of a tragic accident in 2005.

■ Joshua Muravchik's *The Future of the United Nations: Understanding the Past to Chart a Way Forward* was published in September 2005, just as the UN marked its sixtieth anniversary. At a time when the UN's standing is at an historic low due to a series of conspicuous political failures and financial scandals, Mr. Muravchik examines the fundamental question: Is the United Nations a realistic alternative to the emerging Pax Americana?



■ In *The Military We Need*, Thomas Donnelly charts the implications of the Bush Doctrine for the Pentagon's defense strategy, capabilities, and budget and finds an alarming gap between the administration's strategic aims and America's military capabilities. Among other things, he proposes creating new networks of overseas bases, building new alliances, expanding the size of the active-duty army, and increasing defense spending.

■ Paul London's engaging book, *The Competition Solution: The Bipartisan Secret behind American Prosperity*, examines the influence of robust economic competition on the overall performance of the American economy over the last thirty years. While most economists focus on tax or monetary policy, Mr. London attributes recent growth in productivity to the steady advance of the forces of competition.

■ *An Analytic Assessment of U.S. Drug Policy*, by David Boyum and Peter Reuter, examines the nature and effectiveness of efforts to tackle the nation's drug problems. Among other key policy changes, the authors recommend reorienting enforcement to focus on reducing drug-related problems rather than incarcerating low-level dealers.

■ *Pension Fund Politics: The Dangers of Socially Responsible Investing*, edited by AEI adjunct fellow Jon H. Entine, takes a long-overdue critical look at the politically popular "social investing" movement. Should public-employee pension-fund investment decisions be influenced by political considerations, or do the trustees of these funds have a fiduciary responsibility to their beneficiaries to simply invest their money where it will most reliably provide good returns? Mr. Entine and several leading scholars examine this important question.

■ The AEI Press published three works from the AEI-Brookings Joint Center for Regulatory Studies in 2005—Robert W. Hahn's *In Defense of the Economic Analysis of Regulation*; an edited volume by Mr. Hahn, *Intellectual Property Rights in Frontier Industries: Software and Biotechnology*; and the Joint Center's 2004 distinguished lecture, Sam Peltzman's *Regulation and the Natural Progress of Opulence*. The Press also published two new installments in the AEI Liability Project's series of monographs: Michael S. Greve's *Harm-Less Lawsuits? What's Wrong with Consumer Class Actions* and Alex Tabarrok and Eric Helland's *Two Cheers for Contingency Fees*.

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.

■ The AEI internship program connects the Institute with universities across America and around the world, pairing undergraduates, graduate students, and recent graduates with scholars in all policy areas. In the past year, AEI has hosted 165 interns from eighty-seven institutions of higher learning.

■ More than one hundred policy experts at universities across the United States are affiliated with AEI as adjunct scholars. Additionally, AEI scholars hold positions at Berkeley, Carnegie Mellon, Chicago, Columbia, Georgetown, Harvard, Maryland, New York, and Yale. R. Glenn Hubbard serves as dean of Columbia University's Graduate School of Business.



George L. Priest, Yale Law School and AEI Council of Academic Advisers



Bernard Lewis, Princeton University

■ In 2005 Douglas J. Besharov was elected vice president of the Association for Public Policy Analysis and Management. APPAM is a nonprofit professional association of graduate schools of public policy and management whose goal is to foster excellence in research in order to improve public policy.

■ Over the past year, AEI's economic policy scholars published studies in the *American Economic Review*, *Econometrica*, and the *Journal of Political Economy*, widely considered the nation's top three economics journals. They also acted as referees for the journals in approving studies and took part in the deliberations on candidates seeking tenure at major universities.

■ AEI foreign and defense policy scholars are involved with a number of scholarly journals. Michael Rubin is the editor of the *Middle East Quarterly* and Thomas Donnelly is the editor of the *Armed Forces Journal*.

AEI FELLOWS & SCHOLARS



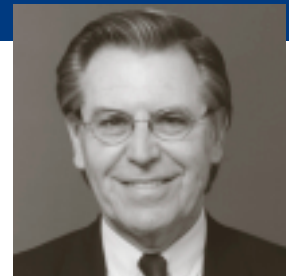
Resident Scholar **Christina Hoff Sommers** studies feminism, culture, and morality in American society. Her most recent book is *One Nation under Therapy: How the Helping Culture Is Eroding Self-Reliance* (2005), which she coauthored with Sally Satel; others include *The War against Boys: How Misguided 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*, and the *Journal of Philosophy*.



Resident Scholar **Phillip L. Swagel** joined AEI this year after more than two years as chief of staff at the White House Council of Economic Advisers. Before this position, he served as a senior economist on the council, a visiting assistant professor at Northwestern University, and an economist at the Federal Reserve Board and the International Monetary Fund. At AEI, Mr. Swagel focuses on international trade and financial policy. His work has appeared in the *Wall Street Journal*, the *Beijing Review*, and *Foreign Affairs*.



Samuel Thernstrom, managing editor of the AEI Press and director of AEI's W. H. Brady Program on Culture and Freedom, studies the science and politics of global warming as well as American political culture. He is a contributor to AEI's *Environmental Policy Outlook* and has written widely on these issues elsewhere.



Resident Fellow **Peter J. Wallison** studies financial markets, banking, and financial services and is the primary contributor to AEI's *Financial Services Outlook*. He is the author, coauthor, or editor of many books, including *Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks* (2004, with Thomas H. Stanton and Bert Ely); *Ronald Reagan: The Power of Conviction and the Success of His Presidency* (2002); and *The GAAP Gap: Corporate Disclosure in the Internet Age* (2000, with Robert E. Litan).

NATIONAL RESEARCH INITIATIVE

■ The National Research Initiative (NRI) strives to expand AEI's work with outside scholars. The program is designed to seek out and support the efforts of 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.

■ The NRI-sponsored book *End of the Line*, by former Amtrak official Joseph Vranich, offers a bold critique of the railroad system by exposing safety concerns, low ridership levels on many routes, and Amtrak's heavy dependence on taxpayers. The book also presents a prescription for reform, which includes partial privatization and devolving part of the railroad system to state and local agencies. *End of the Line* has had a real impact on public debate and within the policymaking community. It has been featured in many media outlets, such as the *Washington Post*, the *New York Times*, the *Boston Globe*, the *CBS Evening News*, and CNN. "Last week," wrote the *New York Times*'s John Tierney in an April 19 op-ed, "the Bush administration adopted Mr. Vranich's idea of giving the federal money to someone other than the folks who brought us the Acela."

■ Adjunct Fellow Jon Entine has edited a volume titled *Pension Fund Politics*, which contains three papers that were prepared for a 2004 AEI conference on socially responsible investing. The papers examine the consequences of injecting social and ethical criteria into pension fund management. Mr. Entine's next book, *Let Them Eat Precaution*, explores issues surrounding genetically modified organisms and will be released in 2006.

■ In his book *Rethinking Rehabilitation*, sociologist David Farabee describes why criminal rehabilitation programs have failed to deter repeat offenses. Mr. Farabee suggests that deterrence-based approaches, such as closer monitoring of parolees, swift application of sanctions, and indeterminate community supervision, would be more effective than programs that seek to address the "root causes" of criminal behavior.



NRI adjunct fellow Jon Entine moderating a panel in October on the implications of the "intelligent design" controversy

■ New York University economist and NRI visiting scholar Daniel Shaviro explores the causes and costs of tax avoidance in *Corporate Tax Shelters in a Global Economy*. In the book, Mr. Shaviro also provides a useful guide to the key conceptual issues that must be addressed in order to design truly effective tax reform.

■ Visiting Fellow Edward Blum and Manhattan Institute senior fellow Abigail Thernstrom are writing a book on the emergency provisions of the 1965 Voting Rights Act, which were originally set to expire in 1970. The authors will show that significant progress has been made in the four decades since the act's passage and that the provisions should be allowed to expire when they are again up for renewal.

■ Having just finished his Ph.D. dissertation, titled "The Very Idea of Hispanic Identity," NRI fellow José Idler is researching the impact of federal data collection on race and ethnicity in the United States. Mr. Idler focuses on Hispanics as a case study and argues that federal ethnic and racial classifications should be reconsidered. He also suggests that more should be done to encourage assimilation of immigrants and to maintain a common American culture.

■ Adam Schaeffer is a doctoral candidate at the University of Virginia and is spending an academic year at AEI as an NRI fellow. His dissertation examines school choice and seeks to establish which arguments and policies have the greatest resonance with the general public. The results of Mr. Schaeffer's study could have a profound impact on the approach that reformers take in promoting school choice policy.

■ NRI sponsored several major conferences in 2005. In March, Colorado governor Bill Owens gave a talk on the Endangered Species Act and made the case for measures that would protect the environment without impinging on the rights of landowners. Steven F. Hayward continued to hold conferences in his series on climate change issues, most recently featuring a report titled "The Economics of Climate Change," which was published by the British House of Lords. Mr. Entine organized day-long conferences on a number of hot-button topics, such as the stem cell debate and the teaching of alternatives to evolution in science classes.

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. During the first three quarters of 2005, AEI hosted more than 150 public events, many of which were televised on C-SPAN or taped for foreign television. Videos of nearly all AEI events can be viewed on the Internet, and conference summaries are both posted on the Institute's website and e-mailed to those who indicate interest.

■ The Bradley Lecture series, now in its seventeenth year, is one of AEI's most popular programs. Generously funded by the Lynde and Harry Bradley Foundation of Milwaukee, Wisconsin, the series aims to enrich debate in the Washington policy community. The roster of distinguished speakers this year included *The Atlantic* journalist Robert Kaplan, *Wall Street Journal* drama critic Terry Teachout, and National Endowment for the Arts head Dana Gioia.

■ AEI's largest event is its Annual Dinner, held each winter in Washington, D.C. More than 1,500 guests gather for the



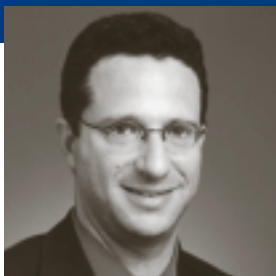
AEI president Christopher DeMuth; James Q. Wilson, chairman of AEI's Council of Academic Advisers; and Mario Vargas Llosa, 2005 recipient of the Irving Kristol Award, at this year's Annual Dinner

gala, which features a speech by the recipient of the year's Irving Kristol Award—given to an individual who has made notable intellectual or practical contributions to improved public policy or social welfare. The 2005 Irving Kristol Award was given to the renowned Peruvian novelist, essayist, and political thinker Mario Vargas Llosa. Former Spanish president José María Aznar introduced Mr. Llosa to the gathering.

■ The Institute'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 2005 World Forum included current and former members of Congress and the Bush administration, as well as foreign dignitaries from European, Middle Eastern, and Asian nations.

■ At the end of 2005, AEI hosted its second annual New York Forum, devoted to off-the-record discussions of critical economic, political, and foreign policy issues facing the United States.

AEI FELLOWS & SCHOLARS



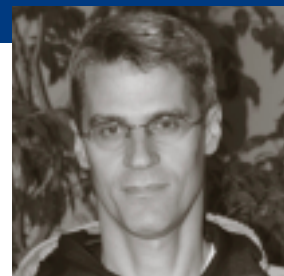
Resident Scholar **Scott Wallsten** examines regulation, privatization, competition, and science and technology policy. His work has been published in periodicals such as the *RAND Journal of Economics*, the *Journal of Industrial Economics*, the *Journal of Regulatory Economics*, and *Regulation*. He has contributed to two books: *Building High-Tech Clusters: Silicon Valley and Beyond* (2004) and *Investing in Innovation: Creating a Research and Innovation Policy That Works* (1999).



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, *Fever: 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. He is the author of *The Powers of War and Peace*, published in October of this year. 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 most recent books are *In Real Life* (2005), *Dawn over Baghdad* (2004), and *Boots on the Ground* (2003).

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 is the work of scholars at other national think tanks. Similarly, AEI scholars are cited more often on television and radio than are their peers at rival research institutes. More than 90 percent of the Institute's scholars were cited in major print or broadcast media in 2004.

■ 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 and is a financial columnist for *Kiplinger's Personal Finance*. Kevin A. Hassett is a weekly columnist for Bloomberg News. David Frum is a contributing editor of *National Review* and a regular columnist for Canada's *National Post*. He and Reuel Marc Gerecht are contributing editors to *The Weekly Standard*, and Mr. Gerecht is also a correspondent for *The Atlantic*. Irving Kristol is the founder of *The National 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. John C. Fortier is a weekly columnist for the *Hill*. Joshua Muravchik serves on the editorial boards of *World Affairs* and the *Journal of Democracy*, and Frederick M. Hess is the executive editor of *Education Next*. Michael Rubin is the editor of the *Middle East Quarterly*, and his writings on Islamist politics in Turkey have garnered widespread attention in that country's media and policymaking communities.

David Brooks of the *New York Times*, George Frederick Jewett Scholar Michael Novak, and William Kristol of *The Weekly Standard*



Andrea Mitchell, NBC News



Greg Ip, Wall Street Journal

■ AEI scholars are also active in the realm of 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; Mr. Hassett writes for various websites on current trends in the U.S. economy; Joel Schwartz covers environmental matters; and Roger Bate assesses world health issues and climate change. Michael A. Ledeen and Michael Novak are contributing editors of National Review Online, for which Mr. Frum writes a daily journal. Ted Frank is a regular contributor to the tort reform weblog Overlawyered.com.

■ AEI 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 2005 several scholars frequently spoke on television and radio: Richard Perle, Mr. Frum, Mr. Gingrich, and Mr. Ornstein each appeared at least three dozen times on various programs.

■ Ben J. Wattenberg hosts PBS's *Think Tank*, a weekly policy program in its thirteenth season. In 2005, shows addressed topics such as the career of Woodrow Wilson; how Alexander Hamilton shaped America; the Iraqi elections; the life of Andrew Jackson; Islam at the crossroads; the Saudi-American alliance; and Rudy Giuliani's tenure as mayor of New York City. *Think Tank* also aired a three-hour PBS documentary based on the landmark book by Mr. Muravchik, *Heaven on Earth: The Rise and Fall of Socialism*.

■ 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. Among the issues covered were China's economic growth, liability reform, education and philanthropy, Russia's economy and politics, GSE reform, and banking regulation.

GOVERNMENT RELATIONS

■ The Institute takes particular care to maintain active lines of communication with government policymakers—members of Congress and their staffs, officials from the executive branch, federal judges, and state and local officeholders.

■ AEI scholars frequently serve on government commissions and boards. In 2005, Robert B. Helms was appointed by Department of Health and Human Services secretary Mike Leavitt to a thirteen-member Medicaid advisory commission; Thomas Donnelly was named by U.S. Senate Majority Leader Bill Frist to serve on the United States–China Economic and Security Review Commission; Fred Thompson was appointed by President George W. Bush to help guide Supreme Court nominee John G. Roberts Jr. through his Senate confirmation; and Newt Gingrich and Danielle Pletka served, respectively, as co-chair and member of a congressionally mandated commission on reform of the United Nations.

■ During the past year, several federal officials came to AEI from the Bush administration. N. Gregory Mankiw was chairman of the White House Council of Economic Advisers, of which Phillip L. Swagel was also a chief of staff. Roger F. Noriega served as assistant secretary of state for Western Hemisphere affairs and as U.S. ambassador to the Organization of American States. Adam Lerrick, an adviser on international economic policy to the Joint Economic Committee of Congress, was the senior adviser to the chairman of the International Financial Institution Advisory Commission of the U.S. government.

■ Some AEI scholars have also returned to government service. Scott Gottlieb, M.D., has become deputy

Allan B. Hubbard, director of the National Economic Council; Ben S. Bernanke, chairman of the Council of Economic Advisers; and Alan Greenspan, chairman of the Federal Reserve Board of Governors



Vice President Dick Cheney at the AEI World Forum

commissioner for medical and scientific affairs at the Food and Drug Administration. He had previously served as a senior official at both the FDA and the Centers for Medicare and Medicaid Services. Radek Sikorski won election to the Polish senate and was appointed as that nation's defense minister. He is a former deputy minister of foreign affairs and former deputy minister of defense of Poland. Paul Wolfowitz, a former member of AEI's Council of Academic Advisers, was nominated by the White House to be president of the World Bank.

■ 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 2005, AEI scholars testified on average more than once a week on Capitol Hill. Scholar testimony included John E. Calfee on Medicaid prescription drugs, Alex J. Pollock on Social Security, Claude E. Barfield on the U.S. relationship with the World Trade Organization, and Michael S. Greve on consent decrees. Douglas J. Besharov testified before the U.S. Commission on Civil Rights on the economic stagnation of the black middle class. Dan Blumenthal testified before the U.S.-China Economic and Security Review Commission on China's economic growth. Roger Bate testified before the President's Commission on HIV/AIDS on how tariffs lower access to essential medicines in the developing world.

■ AEI held a policy conference for new members of the 109th Congress; AEI scholars—including Norman J. Ornstein, Kevin A. Hassett, James K. Glassman, Joseph Antos, Reuel Marc Gerecht, Richard Perle, and Christopher DeMuth—discussed such issues as tax and budget policy, health policy, and foreign and defense policy. AEI's health policy scholars hosted a panel discussion on prescription drug importation from Canada in a Senate office building. Frederick M. Hess delivered an AEI education policy briefing in the House Education and Workforce Committee room to discuss his new book *Urban School Reform: Lessons from San Diego*.

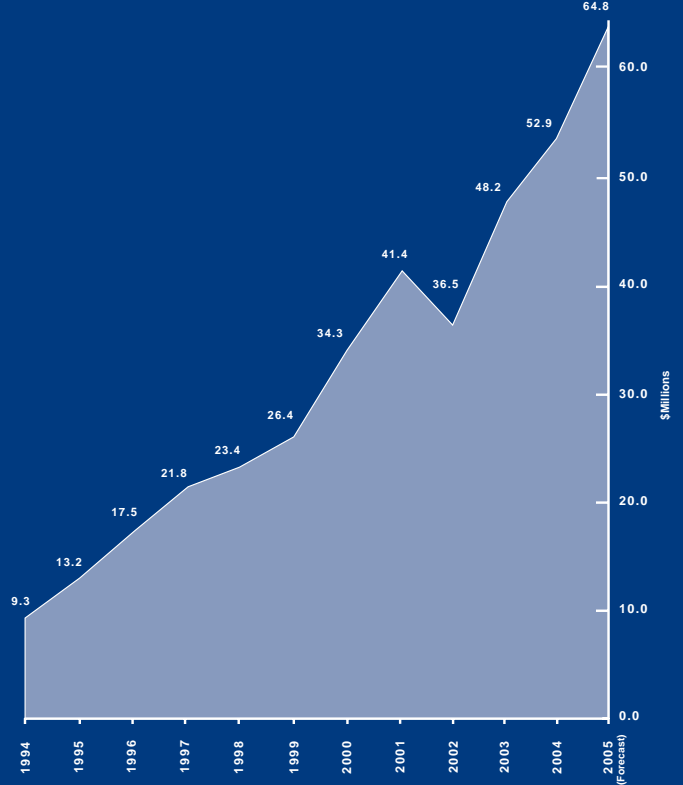
FINANCES

The American Enterprise Institute is grateful to our many supporters who made the activities mentioned on the preceding pages possible. With revenues of \$24.6 million and expenses of \$19.9 million, the Institute enjoyed another year of strong financial performance.

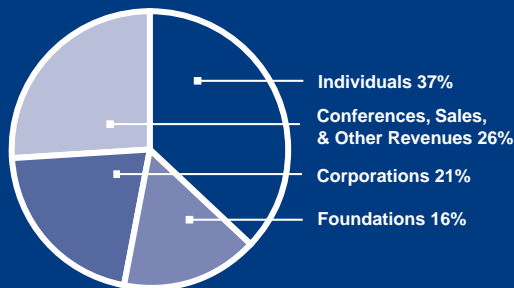
Past Annual Reports have mentioned the effort to build a surplus that can be used to seed new research or protect against an economic downturn. These resources also allow a greater share of the Institute's research activities to be supported on a longer-term basis.

In 2004, the share of operating support provided by the Institute's long-term portfolio grew to almost 22 percent, the highest in AEI's history. That still left 78 percent of activities to be supported by annual fundraising, but the degree of stability offered by the growth of our longer-term resources is very encouraging.

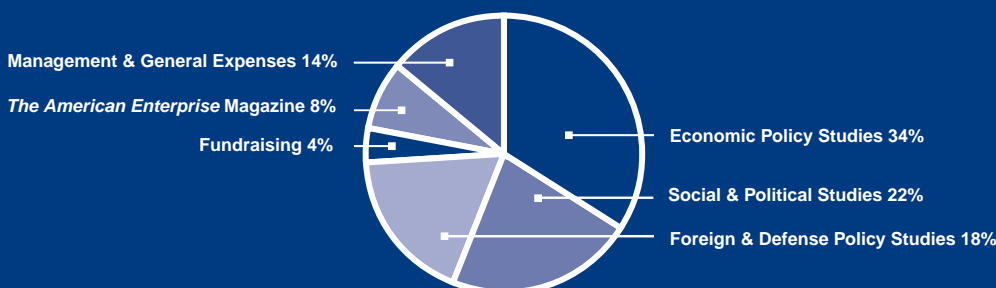
Net Assets



**Sources of
2004 AEI Revenue
\$24.6 million**



**2004 AEI Expenses
\$19.9 million**



AEI devoted more than 82 percent of its expense budget to direct support of its research product and its publications in 2004. A little less than half that research activity was in economic policy studies, with the balance split in roughly equal parts between foreign policy and defense studies and social and political studies.

AEI is committed to transparent accounting of the resources provided to it. In addition to required tax filings, it is our policy to make copies of our audited financial statements available to anyone who requests them.



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