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F I N A N C E S

AEI finances are reported in accordance with GAAP accounting conventions. By those standards, the Institute had 2005 revenues of $37.9 million and expenses of $21.4 million. Foundation revenues increased 35 percent and corporate support was up 22 percent over the previous year.

GAAP requires the net present value of multiyear commitments be recognized in the year the pledges are made, even though some of those funds may be received in the future. Roughly $10 million of the individual revenue reported represents forward commitments. Excluding these commitments, individual support increased by 3 percent.

A 20 percent increase in foreign policy and defense research expenditures led a total expense increase of 8 percent over the previous year. The share of total Institute resources devoted directly to research remained stable at 82 percent.

AEI’s investments are beginning to provide a degree of stability the Institute has never enjoyed before. For the last two years, investment income covered about 22 percent of AEI’s expenses. But that still leaves a significant requirement for annual fundraising, so we are grateful to the many corporate, foundation, and individual friends who provide the support that makes our work possible.

AEI makes certain tax filings publicly available. It also supplements its required financial disclosure by providing copies of its audited financial statement upon request.
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.
In the daily media, politics is about personalities, partisanship, and the struggle for power. In the light of history, however, politics is about something more: powerful ideas about liberty, equality, and the proper role of government—ideas that have shaped America’s destiny from the beginning and are shaping it today.

Since its founding in the early 1940s, the American Enterprise Institute has stood at the crossroads of politics and ideas. AEI’s purposes are practical and political: to defend the principles and improve the institutions of American freedom—including limited government, private enterprise, and a vigilant national defense. But AEI’s methods are intellectual and nonpartisan: rigorous research and scholarship, reasoned debate, and continuous efforts to evaluate, criticize, and improve government policies.

Today, AEI is home to more than fifty scholars and fellows, and sponsors and publishes the research of many more at leading universities across the nation. These men and women are at the top of their academic and professional fields and are determined to apply their work to making tangible improvements in public policy. They are prominent in the debates of the day and are determined to advance innovative new ideas that will shape the debates of tomorrow.

The AEI combination of intellectual purpose and practical engagement yielded impressive results in 2006. The Institute produced a profusion of books, reports, essays, conferences, and lectures—on subjects ranging from the war in the Middle East to school reform, from bioethics to liability reform, from the measurement of poverty to the development of information markets. AEI’s work was sometimes contrarian and sometimes provoked spirited controversies—but always with the purpose of making political dialogue more open, robust, and fruitful. It sometimes produced immediate results in the form of specific laws and policy decisions—and other times laid the groundwork for better decisions a year or decade hence.

AEI scholars are published and cited in the national media more often than those of any other think tank, but we continue to invest in building our own publications arsenal. With the 2006 additions of Development Policy Outlook, Liability Outlook, Middle Eastern Outlook, and Tax Policy Outlook, we now produce thirteen issue-specific periodicals that take full advantage of the power of the Internet. Each publication is distributed—by mail, but increasingly by Internet PDF—to highly customized lists of policy specialists and professionals, bringing them fresh intelligence and insights from AEI research. Our exceptionally rich website and eleven program subsites offer the texts of thousands of AEI publications and videos of all of our conferences and lectures. We email highlights of new additions each day, and receive millions of web visits each year.

The year also brought an important transition in our flagship publication, The American Enterprise. Karl Zinsmeister, in his twelve years as editor in chief of TAE, produced seventy issues of superlative quality and interest and made it by far the most widely read magazine in its league. When Karl decided to step down for purposes of pursuing
his own research and writing, we were elated to find the perfect successor when James K. Glassman agreed to take the helm. A man of prodigious accomplishments in publishing, editing, and writing, Jim has conceived of a distinctive new direction for our magazine, ideally suited to the times. With a new name and design, *The American: A Magazine of Ideas* is addressed directly to the business and financial communities, and presents new ideas and intelligence important to the future of this, the most successful sector of American society. *The American* promises to be a significant new chapter in AEI’s contributions to serious journalism.

Shortly after our magazine transition, Karl Zinsmeister was appointed by President Bush to be his domestic policy chief at the White House. Departures for public service are frequent occurrences at AEI, and there were two others this year. Visiting scholar Randall S. Kroszner was appointed to the Board of Governors of the Federal Reserve System, and resident scholar Phillip L. Swagel left for a senior position at the Department of the Treasury. But AEI continued to grow with the arrival of many new colleagues. We welcome Gerard Alexander, Mauro De Lorenzo, David Gelernter, Kenneth P. Green, Ayaan Hirsi Ali, Dr. Mark McClellan (at the AEI–Brookings Joint Center for Regulatory Studies), Thomas P. Miller, and Alan D. Viard, whose backgrounds and research are described elsewhere in these pages, and Henry Olsen III, vice president and director of the Institute’s National Research Initiative.

Largely unseen in this report are the many people who are devoted to AEI and indispensable to its success: our talented program managers, research and administrative assistants, editors and marketers, and student interns who work early and late at AEI headquarters; and our generous corporate, foundation, and individual donors who finance everything we do. AEI was recently featured in *Washingtonian* magazine as one of the top places to work in the nation’s capital. And its finances, summarized on the last page of this report, are equally well-managed, with careful attention to expenses and to the bracing demands of fundraising.

The Institute is now embarking on a $100 million capital campaign which will underwrite major enhancements to its research, publications, and communications programs, and to its office and conference facilities. Strengthening AEI’s endowment will help ensure that powerful ideas for better government remain at the forefront of American policy debate far into the new century.

Bruce Kovner
Chairman

Christopher DeMuth
President
ECONOMIC POLICY STUDIES

AEI’s original purpose was to study economic policy. The Institute’s central goal today is to understand how free economies function: how to capitalize on their strengths, how to keep private enterprise vigorous, and how to address the problems that arise. Although the Institute has expanded the scope of its activities over the years, economic policy studies remain at the core.

The Sarbanes-Oxley Act of 2002 (SOX) is a colossal failure, poorly conceived and hastily enacted during a regulatory panic. Evidence suggests that the market has estimated that SOX will impose huge indirect costs on top of substantial direct costs. A largely overlooked concern is the act’s potential to turn into a litigation time bomb: the first major market correction will likely become a feast for trial lawyers. SOX’s defenders assert that the business world is better off now than before SOX, but the relevant question is whether it is better because of SOX. Existing institutions could have responded to any problems without a vast one-size-fits-all regulation from the federal government.

SOX should be repealed, but failing that, there is some hope that a recent lawsuit could provide the leverage to enact at least some major changes. The economic costs of SOX could be greatly reduced by prohibiting private lawsuits based on SOX, exempting all but the largest domestic corporations and dual-listed securities of foreign corporations, and clarifying and reducing the requirements of SOX’s controversial internal controls disclosure requirement. The post-SOX era offers opportunities to assess soberly what we have learned about policymaking from the SOX fiasco. There is much to be said for careful regulation that recognizes legislators’ inherent limitations in reforming corporate governance. The Sarbanes-Oxley Debacle seeks to salvage some lessons from the ruins of SOX.

AEI Fellows & Scholars

Currently on sabbatical from the University of Virginia, Gerard Alexander is a visiting scholar at AEI. He is the author of The Sources of Democratic Consolidation (2002) and is currently researching the growth of government, America’s policy of democratization abroad, and the conditions for stable democracy.

Joseph Antos, Wilson H. Taylor Scholar in Health Care and Retirement Policy, examines health-care policy. 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 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 authority 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, and The National Interest, as well as scholarly journals. He is the author of Yeltsin: A Revolutionary Life (2000) and the forthcoming Russia’s Revolution: 1985-2005.

An important part of AEI’s mission is the preservation and promotion of free market economics, both in the United States and around the world. AEI scholars and fellows examine such topics as the national budget, monetary policy, international markets, and major trends in the global economy.

R. Glenn Hubbard and Kevin A. Hassett held a daylong conference at AEI in June at which five economic research papers analyzing the effects of corporate taxation on compliance costs, tax revenues, wage levels, economic growth, and innovation were presented. At the conference, Mr. Hassett presented a study he wrote with Aparna Mathur on taxes and wages. The paper, which showed that wages are highly responsive to corporate taxation, was cited by The Economist. Edward Lazear, chairman of the Council of Economic Advisers, delivered the keynote address.

On the occasion of the twenty-fifth anniversary of the Reagan tax cuts in August, Christopher DeMuth assessed the Reagan economic legacy in an article in National Review, arguing that there were two wins (reducing inflation and deregulation), one draw (tax policy), and two losses (lack of spending restraint and privatization). He believes that how we deal with the government’s major health-care programs will determine the verdict on economic policy in the next twenty-five years.

In 2006, John H. Makin’s highly regarded Economic Outlook series examined major trends in the U.S. and world economies. Among the topics he addressed in his monthly report were the challenges faced by Federal Reserve chairman Ben Bernanke, the health of the Japanese economy, China’s economic policies, and the surprising strength of the dollar.

AEI followed up on the report of the President’s Advisory Panel on Federal Tax Reform with an event in May that examined its recommendations. Robert Carroll and Craig Johnson of the U.S. Treasury Department presented a paper at the conference using dynamic instead of static analysis to look at the possible effects of individual reforms on economic growth.

Panelists at a March event moderated by Mr. Hassett examined tax and welfare policies designed to assist America’s low-income workers. They discussed mechanisms such as the

General Economics

AEI Fellows & Scholars

Resident Fellow Roger Bate researches health and environmental policy in the developing world. His focus this year has been on how international organizations impede sound health policy. 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 author of All the Water in the World (2006) and coauthor of Malaria and the DDT Story (2001, with Richard Titus).

Resident Scholar Walter Berns, the John M. Olin University Professor Emeritus at Georgetown University, writes on constitutional theory, legal issues, and political philosophy. He is the author of numerous books, including Democracy and the Constitution, a collection of essays published this year by the AEI Press, and Making Patriot (2001). He is one of the principal authors of After the People Vote: A Guide to the Electoral College (third edition, AEI Press, 2004).

Douglas J. Besharov, the Joseph J. and Violet Jacobs Scholar in Social Welfare Studies, researches ways to reduce poverty, social dependency, domestic violence, illegitimacy, and teenage pregnancy. He has written and edited several books, and is the director of the Welfare Reform Academy at the University of Maryland. This past year, Mr. Besharov played a major role in constructing an alternate definition of the poverty level.

Visiting Fellow Edward Blum researches civil rights policy. He is actively involved in the debate on the reauthorization of the Voting Rights Act, about which he is writing a book. A senior fellow at the Center for Equal Opportunity, Mr. Blum is a contributor to the Wall Street Journal, The Weekly Standard, and National Review.
General Economics, continued

Earned Income Tax Credit and the minimum wage and offered their assessments about whether they are working effectively, whether they are properly formulated, and whether better alternatives exist. This year’s Nobel laureate in economics Edmund S. Phelps spoke at the conference.

- Mr. Hassett writes a weekly column for Bloomberg.com and is a panelist on Bloomberg Television’s Money and Politics. He is also a regular contributor to National Review, in which he has written about such issues as the churn of the U.S. labor market, teen pregnancy, and corporate taxation. “Dividend Taxes and Firm Valuation: New Evidence,” an article by Mr. Hassett and Alan J. Auerbach of the University of California at Berkeley, was published in May in The American Economic Review.

- In a flurry of provocative op-ed articles, the prolific James K. Glassman, editor in chief of The American, challenged the president’s assertion in the State of the Union message that the United States was addicted to oil, argued strongly for the Dubai ports deal, explained why defined benefit pension plans are headed for the dustbin of history, and argued that there should be more competition in cable television markets.

- In an AEI research paper, Véronique de Rugy provided a comprehensive look at trends in supplemental spending. Her work shows that it was kept under control throughout the 1980s and 1990s, but that the general trend since 1998 has been a sharp increase in the number of discretionary supplemental appropriations and a precipitous decline in offsetting rescissions. The increased use of supplemental appropriations has contributed to a spending explosion. Because supplemental appropriations do not count against annual budget limits and no longer trigger automatic spending cuts, Ms. de Rugy argued that supplementals—especially emergency ones—have become the tool of choice for Congress and the administration to evade annual budget limits and to increase spending across the board. She also continued to review spending by the Department of Homeland Security in response to the 9/11 attacks and Hurricane Katrina.

- In May, Karl Rove, senior advisor and deputy chief of staff at the White House, gave an address at AEI defending the Bush administration’s record on taxation, trade, and federal spending. He described the tax cuts as “the largest tax relief in a generation” and argued that tax revenues are at an all-time high “because of the economic growth the tax cuts contributed to.” He also mentioned that since 2001 the United States has completed fourteen bilateral trade agreements.

- In July, Federal Reserve governor Kevin M. Warsh gave a keynote speech at an AEI conference about corporate cash balances and economic activity. At the conference, panelists discussed a paper written by Mr. Hassett and research assistant Kathryn Newmark which investigated the effects of liquidity and taxes on investment.

- AEI held several important forums on Social Security this year. In 2005, Alex J. Pollock offered an alternative proposal to President George W. Bush’s personal retirement accounts. In 2006, he wrote widely about the “Pollock Plan,” which would use the annual Social Security surplus to create personal lockboxes invested in inflation-indexed U.S. Treasury bonds. In 2006, Senator James DeMint (R-S.C.) introduced legislation based on the plan. In February, AEI invited White House official Charles P. Blahous to discuss Social Security reform, and in June the Institute held a forum in which three panelists of different political stripes offered their own bipartisan plan to reform the pension system.

- In November 2006, AEI launched its latest Outlook series, Tax Policy Outlook, written by Alan D. Viard. The first issue discussed the Alternative Minimum Tax.
At an April conference, Representative Bill Thomas (R-Calif.), chairman of the House Ways and Means Committee, shared his views on the future of U.S. trade policy. He argued that the United States should continue to pursue free trade agreements aggressively through bilateral negotiations if multilateral talks fail.

In October, U.S. Trade Representative Susan C. Schwab spoke at a conference on the future of the multilateral trading system. She described the Bush administration’s trade priorities: increased trade, more access for U.S. goods, and the alleviation of poverty in developing countries, and urged new efforts to complete a Doha agreement.

Claude Barfield is focusing on key issues in international trade, such as the growth of Asian regionalism and what the collapse of the Doha round means for the United States. Mr. Barfield also monitors the differing perspectives of trade and security experts on China. With coauthor Andrei Zlate, he is writing a book called The Eagle and the Dragon in Asia.

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John H. Makin wrote about a number of subjects related to international trade in the Institute’s Economic Outlook. In one issue he explained the strength of the U.S. dollar by detailing the wealth storage options that the United States provides for rapidly growing countries.

Desmond Lachman studies the imbalances characterizing today’s global economy, especially those in many developed countries. He is also examining the structure of institutions such as the International Monetary Fund. Visiting fellow Sarath Rajapatirana argues that trade preferences for less developed countries are ineffective at best—a mere Band-Aid for the problems these countries face—and harmful at their worst.

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In 2006, Peter J. Wallison held a series of conferences on the regulation of the mutual fund industry. The events are part of an eighteen-month conference series entitled “Is There a Better Way to Regulate Mutual Funds?” that began in September 2005. Speakers this year included John Bogle, the founder of the Vanguard Group and a pioneer in the industry. In February, four former directors of the Securities and Exchange Commission’s (SEC) Division of Investment Management shared their perspectives on the current regulatory structure and on whether reforms are necessary. The seminars also examined the advantages and disadvantages of various alternative forms of collective investment as well as the mutual fund industries in other countries. At the conclusion of the series, Mr. Wallison and series codirector Robert E. Litan of the Brookings Institution will recommend changes to current regulation.

At an AEI conference in March, the authors of the AEI Press book The Sarbanes-Oxley Debacle: What We’ve Learned; How to Fix It briefed reporters and others on the law’s effects. Henry N. Butler of Chapman University and Larry E. Ribstein of the University of Illinois argued that the Sarbanes-Oxley Act (SOX) was poorly conceived and hastily enacted. In the book, they document the act’s huge direct and indirect costs.

In a provocative Financial Services Outlook, Mr. Wallison argued that the United States is in danger of losing its preeminence in the financial world because its financial markets are no longer seen as hospitable either to companies or transactions. In the article, Mr. Wallison reviewed warning signs in securities markets, in global financial transactions, and in the withdrawal of U.S. companies from public ownership. In another Outlook, he examined the far-reaching consequences of SOX’s requirement that audit committees be composed entirely of independent directors.

In April, Alex J. Pollock hosted an event on the structural problems of the Pension Benefit Guaranty Corporation (PBGC). In August, Congress passed and President Bush signed the Pension Protection Act of 2006. In a Financial Services Outlook, Mr. Pollock argued that the legislation would improve the financial exposure of the PBGC but would still leave a projected deficit and fundamental structural problems. In September, Mr. Pollock wrote about how current retirement financing is inadequate to the realities of today’s economy given how much longer most people now spend in retirement.

Mr. Wallison continued his probes of Fannie Mae and Freddie Mac in 2006. In separate Outlooks, he discussed the Office of Federal Housing Enterprise Oversight (OFHEO) report that documented substantial risk-taking as well as accounting fraud at Fannie Mae. He also examined the Rudman report on Fannie Mae, arguing that although it did not contain any significant new information, it gave rise to some important issues for policymakers. At a September conference, Senator Chuck Hagel (R-Neb.) and OFHEO director Jim Lockhart discussed the need to reform government-sponsored enterprises.

In another Outlook, Mr. Wallison argued that the time has come for an optional federal charter for insurance companies in order to permit them to gain approval for new products at a single place. At a September conference, a panel considered the deregulation of insurance rates in light of deregulation in five other economic sectors: securities brokerage, insurance, cable television, banking, and trucking.

In 2006, Adam Lerrick published a series of papers on the AEI website from a 2005 conference on the history and character of hedge funds and their role in the economy.

AEI hosts the Shadow Financial Regulatory Committee, a group of publicly recognized independent analysts of the financial services industry who meet regularly to study and critique regulatory policies affecting this sector of the economy. In 2006, the committee issued statements on topics such as the capital structure of Federal Home Loan Banks, as well as various SEC actions.
In 2006, Kenneth P. Green joined the Institute to work on energy and environmental policy. Mr. Green is an environmental scientist by training.

For more than a decade, Steven F. Hayward has produced a valuable annual roundup of environmental data. The Index of Leading Environmental Indicators is a joint publication of the AEI Press and the Pacific Research Institute. The 2006 edition highlights positive trends in climate change, air quality, water quality, toxic chemical pollution, and biodiversity. It also includes a special section on China’s environmental situation.

Messrs. Hayward and Green have launched a major project to review and critique the report of the United Nations’ Intergovernmental Panel on Climate Change to be issued in 2007. In the fall, they each wrote an Environmental Policy Outlook on the subject. They also examined the factual basis of former vice president Al Gore’s movie An Inconvenient Truth.

In the third Environmental Policy Outlook of 2006, Mr. Green offered concrete recommendations to deal with high energy prices. In March, Mr. Hayward argued that the chapters on human adaptability and resilience in the United Nations’ Millennium Ecosystem Assessment may represent a turning away from Malthusian fatalism. In another Environmental Policy Outlook, he argued that China’s environmental situation will improve a lot sooner than expected. In a May article, Joel Schwartz examined popular portrayals of air pollution and health.

The efforts of Roger Bate to promote wider use of DDT to prevent malaria achieved success with the new World Health Organization guidelines issued in September. The guidelines endorse the targeted use of DDT in malaria-afflicted regions in Africa, Asia, and South America. Mr. Bate’s most recent book, All the Water in the World, was published in September by Australia’s Center for Independent Studies. It argues that water markets reduce waste, allow fairer distribution, and foster rational development of new water resources.

AEI hosted James L. Connaughton, chairman of the Council on Environmental Quality, for a lecture in May. He discussed little-noticed progress in addressing climate change.

John Stossel, the host of ABC’s 20/20, spoke at an AEI book forum in May. His new book, Myths, Lies, and Downright Stupidity, takes the media to task for overblown environmental horror stories, among other issues.
The AEI-Brookings Joint Center for Regulatory Studies, directed by AEI’s Robert W. Hahn and Robert E. Litan of the Brookings Institution, was established in 1998 and is one of the most active think tank collaborative efforts.

The Joint Center’s active publishing program included papers and essays on topics as diverse as the inefficiency of municipal regulations on water; the success of the Montreal Protocol and the failure of the Kyoto Protocol; the role of judges in regulatory policymaking; competition in electricity markets; the future of charge-card networks (coauthored by Alex J. Pollock); the implications of pharmaceutical price disparities in developed nations (authored by John E. Calfee, research fellow Mario Villarreal, and research assistant Elizabeth DuPré); software security; and automotive-related subjects such as airbags, antilock brakes, carpools, and congestion costs.

In October, Mark McClellan, M.D., the former administrator of Medicare and Medicaid, accepted a research appointment at the Joint Center. He will work on a variety of health-policy issues.

In 2006 the AEI Press published Information Markets: A New Way of Making Decisions, edited by Mr. Hahn and adjunct fellow Paul C. Tetlock. The collection of essays discusses the potential impact of information markets on public policy and private decision-making. The full text of this book has been downloaded more than 4,000 times since its publication.

Scott Wallsten wrote three working papers on telecommunications regulation for the Joint Center. They covered the rise and effects of U.S. telecommunications regulation in the early twentieth century, the role of telecommunications policies in the Organisation for Economic Co-operation and Development countries, and the impact of state and federal policies on broadband investment. Together, Messrs. Wallsten and Hahn wrote a paper on the economics of network neutrality. They also coordinated a letter on broadband policy that was signed by twenty-five leading economists.

In late 2005, the AEI Press published former Federal Communications Commissioner Harold Furchtgott-Roth’s A Tough Act to Follow: The Telecommunications Act of 1996 and the Separation of Powers. In the book, Mr. Furchtgott-Roth explains why communications policy has been disconnected from communications law, then concludes that the structure of the FCC will thwart efforts to improve the situation.


In its January 2006 issue, Choice magazine featured Mr. Hahn’s In Defense of the Economic Analysis of Regulation (AEI Press, 2005) as one of its Outstanding Academic Titles.

The Joint Center has an active conference program. In February, a panel on “The Google Copyright Controversy” investigated how the push to digitize printed information challenges copyright law and intellectual property rights, and focused on the potential costs, benefits, and legal repercussions of the current controversy. An event in September featured University of Chicago law professor Cass Sunstein’s new book, Infotopia: How Many Minds Produce Knowledge. C-SPAN2’s Book TV covered the event. Mr. Hahn moderated and Christopher DeMuth was a discussant at a September event about New Foundations of Cost-Benefit Analysis, by Matthew Adler of the University of Pennsylvania and Eric Posner of the University of Chicago.

The Joint Center’s website makes the work of AEI scholars and others available to a wide audience. In the first quarter of 2006 alone, the Joint Center registered more than 275,000 downloads, an increase of 92 percent over the same period in 2005.
HEALTH POLICY

- AEI’s Health Policy Program continues to lead debates on a wide range of important health care issues, including Medicare and Medicaid reform, coverage of the uninsured, world health, Food and Drug Administration (FDA) reform, and the effects of price controls on pharmaceutical research and development.

- The Institute is devoting increasing attention to global health issues. For more than seven years, Roger Bate and Richard Tren of Africa Fighting Malaria have worked to change policy on the use of DDT. In early September, with Messrs. Bate and Tren on hand to answer technical questions, the World Health Organization issued landmark guidelines for the wider use of DDT to control malaria, one of the top killers in Africa, South America, and Asia.

- The FDA observed its hundredth anniversary in 2006, and John E. Calfee wrote about the agency’s own health. In a Health Policy Outlook entitled “Playing Catch-up,” Mr. Calfee argued that our health depends on regulatory innovation as much as on scientific progress. He believes that technological advances are rendering obsolete the regulatory approaches the FDA uses. A February conference at AEI brought together academics, FDA officials, and industry representatives to discuss what the agency can do to bring the most innovative drugs to market faster.

- In March, the AEI-Brookings Joint Center for Regulatory Studies published Mr. Calfee’s survey of multiple sclerosis patients’ attitudes toward the benefits and risks of drug therapy. About half of the patients in his study were willing to assume the roughly 1-in-1,000 risk of death associated with the drug Tysabri in return for its substantial therapeutic benefits. Mr. Calfee presented the results at a public hearing before the FDA’s Peripheral and Central Nervous System Drug Advisory Committee. The agency later took the unprecedented step of approving the drug for reentry into the market.

- Thomas P. Miller joined the Institute as a resident fellow in August. Previously a senior health economist at the Joint Economic Committee, Mr. Miller will conduct research in health information, consumer resources, interstate competition in health insurance regulation, and the financing of predictable and persistent high-cost insurance claims.

- In a January Health Policy Outlook, Joseph Antos described the new Medicare drug benefit as the first significant test of
competition and consumer choice in the program. Mr. Antos was optimistic that most seniors could navigate the program, a prediction borne out by later polls of senior citizens. During the year, Mr. Antos wrote about Medicare issues in publications such as *Health Care Financing Review* and *Medical Progress Today.*

For over a decade, Robert B. Helms has organized an annual public conference to discuss the annual Medicare Trustees Report on the health of the program. In 2006, Medicare’s chief actuary and others focused on the new drug benefit’s effect on the long-term financial condition of the program and on a future Medicare crisis.

In July, AEI held a conference that focused on the roles that technology and the availability of insurance have on health costs. Also in July, in an AEI research paper, Aparna Mathur challenged the conventional wisdom that health costs are a major reason for personal bankruptcy. Credit card debt contributed to more filings than health costs, she wrote, and people who filed because of health costs tended to bounce back from bankruptcy faster.

In September, the AEI Press published *The Business of Health: The Role of Competition, Markets, and Regulation* by Robert L. Ohsfeldt of Texas A&M and John E. Schneider of the University of Iowa. The book, which was widely disseminated to policymakers and the media, examines the influence of market competition and regulation on hospitals, health insurance, managed care, and prescription drug advertising.

Mr. Helms serves on the National Advisory Council for Healthcare Research and Quality and on the Commission on the Future of Medicaid. Nicholas Eberstadt serves on the Board of Scientific Counselors of the National Center for Health Statistics and on the visiting committee of the Harvard School of Public Health.

Messrs. Bate and Tren wrote in a *Health Policy Outlook* about Brazil’s highly regarded AIDS program and how the methods that country has used to reduce prices could affect poorer countries. In another *Health Policy Outlook*, they urged the World Trade Organization to address factors that restrict access to essential medicines, especially the high tariffs poor countries impose on medicine and medical devices. In another *Outlook*, Mr. Bate looked at the failure of the World Health Organization’s initiative to treat HIV-infected people in low- and middle-income countries. Also in 2006, he and Mr. Tren evaluated greater state and bureaucratic control of pharmaceutical research and development, arguing that increased control will not deliver results.

Mr. Calfee also studied pharmaceutical pricing issues this year. One essay on the subject, entitled “An Exploratory Analysis of Pharmaceutical Price Disparities and Their Implications among Six Developed Nations,” was written with Mario Villarreal and Elizabeth Du Pré. Mr. Calfee and Ms. Du Pré also published a study in *Health Affairs* on pricing and market competition of innovative biotech drugs. Mr. Calfee has written about the biodefense marketplace, and he examined the Vioxx litigation verdicts in an article in the *New York Sun* in April.

After having a kidney transplant, Sally Satel, M.D., began writing about the flaws in the nation’s organ donation program. She is writing a book on her experience and on policy in the area. In 2006, the AEI Press published *The Health Disparities Myth: Diagnosing the Treatment Gap*, written by Dr. Satel and Jonathan Klick of Florida State University.

Late in 2005, the AEI Press published *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*, by R. Glenn Hubbard and the Hoover Institution’s John F. Cogan and Daniel P. Kessler. The book received significant press attention. In January 2006, former senator John Breaux (D-La.) joined Mr. Hubbard and former Congressional Budget Office director Douglas Holtz-Eakin at an AEI conference to discuss fixing the health-care system.

Newt Gingrich comments frequently on health policy. This year, he wrote about health-care costs, cancer research, and the Medicare prescription drug benefit.

Scott Gottlieb, M.D., is returning to AEI after serving as deputy commissioner for medical and scientific affairs at the Food and Drug Administration.
FOREIGN AND DEFENSE POLICY STUDIES

In an era of international upheaval, AEI’s foreign and defense policy scholars seek to understand how best to advance political and economic freedoms—as well as American interests—around the world. The Institute monitors world affairs from studying relations between the United States and its allies to analyzing security threats worldwide, and from examining democratic transitions to evaluating international organizations and institutions.

On September 11, 2001, while America reeled from the day’s cataclysmic events and the majority of official Washington, D.C.—including most of the Justice Department—struggled through the mother of all traffic jams to leave town, John Yoo and a skeletal staff of the Office of Legal Counsel stayed behind. They quickly found themselves on the phone with the White House. The day’s attacks called for a response, but the scope of the president’s legal authority to act was unclear.

In a series of memos to the White House, Yoo offered his legal opinions, and in the process had an almost unmatched impact on America’s fight against terrorism.

War by Other Means offers an insider account of the contexts, facts, and personalities behind the War on Terror. In fascinating detail, Yoo also examines specific cases, from John Walker Lindh and Jose Padilla to an American al-Qaeda leader assassinated by a CIA pilotless drone in the deserts of Yemen. And no one is more qualified to write on the legal aspects of the War on Terror than AEI visiting scholar John Yoo.

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AEI Fellows & Scholars


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, writes prolifically about these topics, and makes frequent television appearances. Among his recent books is Winning the Future: A 21st Century Contract with America (2005).

James K. Glassman is the editor in chief and executive publisher of The American, AEI’s flagship magazine. The American surveys the panorama of American life through the lenses of commerce and economics. Mr. Glassman, a resident fellow studying economics, technology, and politics, also writes for TCS Daily, which he founded in 2000; the Wall Street Journal; and Kiplinger’s Personal Finance. He chairs Investors Action Alliance, a nonprofit organization he cofounded in 2004 to educate and advance the interests of ordinary American investors.
To mark the fifth anniversary of the September 11 terrorist attacks, AEI held a conference to evaluate U.S. progress in the War on Terror. Institute scholars Frederick W. Kagan, Danielle Pletka, Gary J. Schmitt, Fred Thompson, and John Yoo spoke at the September 8 event. Stuart Levey, under secretary of the Treasury for terrorism and financial intelligence, gave the keynote address. In his speech, Mr. Levey announced the blacklisting of a major Iranian bank and outlined the intelligence and surveillance methods that the U.S. government uses to track terrorists’ financial dealings.

On September 11, Newt Gingrich articulated his vision for the next phases of the War on Terror. In a series of high-profile television interviews earlier in the year, Mr. Gingrich initiated a nationwide conversation about whether the War on Terror is becoming an emerging third world war.

Under Mr. Schmitt’s direction, AEI launched a program this year in advanced strategic studies. The idea behind the effort—which will include regular conferences, seminars, and publications—is to think seriously and comprehensively about U.S. security needs in the post-9/11 world and to provide ideas for policymakers. Among the subjects to be explored are transatlantic relations, China’s military modernization, the security implications of America’s current energy crisis, and intelligence reforms. One of the problems the project has identified is declining U.S. force strength. Mr. Schmitt commissioned essays on the state of the armed services.

During a July visit to meet with President Bush, Georgian president Mikhail Saakashvili gave his only public address in Washington at AEI. He spoke on the progress his country has made since the Rose Revolution of 2003 and about Georgia’s strategic importance.

Leon Aron continued to study the evolution of Russia under President Vladimir Putin. In his summer Russian Outlook, Mr. Aron explained the reasons for the deterioration in U.S.-Russian relations over recent years. AEI’s NGOWatch, which monitors the work of nongovernmental organizations, held a conference that Mr. Aron moderated in March on the new law in Russia that hinders the efforts of nongovernmental institutions there.

Developments in the Middle East, Russia, and Latin America brought energy security issues to the forefront of policy discussions in 2006. Mr. Schmitt wrote a National Security Outlook about increasing natural gas use in the United States.
and the problems that disruptions would pose for the economy. In the spring, Mr. Aron authored a *Russian Outlook* about the Russian oil market and convened a major conference on the subject in May. In a *Latin American Outlook*, Roger F. Noreiga encouraged resource-rich nations in the Western Hemisphere to adopt sound policies for developing their oil and gas industries.

- Dan Blumenthal, Nicholas Eberstadt, James R. Lilley, and Mr. Schmitt have been involved in various AEI projects on Asian security issues and are watching the growth and sophistication of China’s military. Mr. Eberstadt wrote several articles about North Korea’s decision to test missiles and the threat that country’s actions represent to U.S. interests in East Asia. Mr. Schmitt held a conference on security concerns in Southeast Asia. The May *National Security Outlook* addressed security concerns over Pakistan’s nuclear weapons.

- In September, AEI published research associate Christopher Griffin’s *Asian Outlook* that discussed how India and China view each other today. Mr. Griffin’s research examines how intra-Asian power competition is developing.

- David Frum continued to write for *National Review*, Canada’s *National Post*, and Italy’s *Il Foglio* on a wide range of foreign policy topics, including terrorism and the war in Iraq. His September *National Security Outlook* discussed post-election U.S. foreign policy scenarios.

- In September, the Institute welcomed Mauro De Lorenzo as a resident fellow in foreign policy studies. He researches private sector–based approaches to development in post-conflict and post-socialist countries, with an emphasis on reforms that have garnered interest from foreign and domestic investors. He is also looking closely at Chinese investment in Latin America and Africa.

- Reuel Marc Gerecht, who is now based in Brussels, is working with Mr. Schmitt to organize a new AEI start-up, the Committee for a Strong Europe. The honorary co-chairs of the committee are Senator John McCain (R-Ariz.) and former Spanish prime minister José Maria Aznar. Mr. Schmitt is also organizing a series of discussions about U.S. and European approaches to democracy promotion. In September, a panel moderated by Mr. De Lorenzo discussed how much we really know about democracy promotion.

- Messrs. Gerecht and Schmitt are reviewing domestic security policies and practices in the United States and in four European nations. In June, Messrs. Kagan and Schmitt met with European colleagues to discuss ways to strengthen transatlantic ties. Out of that meeting came the Transatlantic Relations Working Group, which will continue to meet to discuss common threats and goals and the future of the North Atlantic Treaty Organization.

- In September, Mr. Yoo published *War by Other Means: An Insider’s Account of the War on Terror* (Atlantic Monthly Press). His experience as a Justice Department lawyer illuminates his discussion of the detention of enemy combatants, the Patriot Act, covert wiretapping, the Geneva Conventions, and other key issues.

- Under the direction of Mr. Kagan, AEI launched a project in March to study the evolving role of land power in the American way of war. Mr. Kagan is commissioning papers from senior military officials and other experts for a forthcoming anthology on topics such as ground combat operations and manpower needs. Following the inaugural meeting of the project, a second meeting examined coalition efforts to train the Iraqi Security Forces. At a related July breakfast discussion, Michael Rubin commented on a presentation by Lieutenant General Nasier Abadi, deputy chief of staff of Iraq’s Joint Forces, on the future of that country’s military.


- Several AEI scholars write about the importance of promoting democracy within Iran. Richard Perle and Michael A. Ledeen took the administration to task in print for sending conflicting signals to democracy activists there.


**Latin American Studies**

- In 2006, Roger F. Noriega surveyed the political and economic scene in Latin America at a number of AEI conferences. He also wrote about developments in the region as the author of AEI’s popular *Latin American Outlook*, which is now available in Spanish as well as English, and which is widely distributed in Latin America.

- At a January conference entitled “Latin America’s Lurch to the Left,” organized by Desmond Lachman, Ambassador Noriega spoke about developments in the region over the past five years and explored the reasons for the leftward political movement. He focused specifically on the role of Venezuelan president Hugo Chávez.

- Panelists at an AEI conference in May discussed progress on the 2004 U.S.-Chile Free Trade Agreement. Although Chile has made significant progress under the agreement, it is still falling short in some areas, including harmonizing intellectual property rights and making possible the entry of small- and medium-sized enterprises into international markets.

- In anticipation of the Mexican presidential elections, Ambassador Noriega held two panel discussions. The first looked at the candidates’ standings, and the second at the election’s implications for Mexico, the United States, and Latin America. Luis Rubio, one of Mexico’s leading political and economic commentators, participated in the event, as did research fellow Mario Villarreal. Soon after the election, Ambassador Noriega authored a *Latin American Outlook* entitled “Mexico’s Last Chance,” in which he looked at whether Mexican president-elect Felipe Calderón can govern effectively. He argued that Mexican elites need to support significant structural reforms in order to improve the condition of the poor and advance their country internationally.

- AEI held a number of sessions on the hot-button issue of immigration. In June, Secretary of Homeland Security Michael Chertoff spoke at the Institute about strengthening U.S. border security. In April, Newt Gingrich offered his thoughts on the subject in a talk called “Ending the Dishonesty: The Way Forward on Border Control and Patriotic Immigration.” In March, Ambassador Noriega hosted an event that examined President Bush’s approach to immigration reform.

- Mauro De Lorenzo, who joined AEI in September, studies Chinese foreign direct investment in Latin America and Africa.

**AEI Fellows & Scholars**

- **Resident Scholar Robert W. Hahn**, codirector of the AEI-Brookings Joint Center for Regulatory Studies, analyzes regulatory issues ranging from real-estate brokerage laws to mercury regulation. He is the coeditor of *Information Markets: A New Way of Making Decisions,* published this year by the AEI Press.


- **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* (eleventh edition, AEI Press and the Pacific Research Institute, 2006) and frequently contributes to AEI’s *Environmental Policy Outlook*.

- **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 the AEI Press’s *Competitive Strategies in the Pharmaceutical Industry* (1996) and *Medicare in the Twenty-First Century: Seeking Fair and Efficient Reform* (1999). He serves on the Health and Human Services Medicaid Advisory Commission.
Middle East Studies

- AEI scholars—including Reuel Marc Gerecht, Frederick W. Kagan, Michael A. Ledeen, Joshua Muravchik, Richard Perle, Danielle Pletka, and Michael Rubin—continue to monitor political, economic, and social developments in the Middle East.

- In September, the Institute introduced the thirteenth in its popular series of Outlook publications. Middle Eastern Outlook is available in English, Arabic, and Farsi. The first issue, written by Mr. Rubin, examined Iran’s nuclear ambitions and its relationship with the West.

- AEI’s “Dissent and Reform in the Arab World” conference series identifies intellectual and political reformers in the Middle East and bolsters their work. In January, March, and November, the Institute gathered activists to discuss prospects and obstacles for reform. At the first conference, participants from Tunisia, Libya, and Yemen described the repressive measures their governments use to stifle democracy in their countries and offered suggestions for reform. A second meeting, entitled “Empowering Democrats,” included participants from Iraq, Syria, Lebanon, Jordan, and Palestine. The panelists discussed challenges such as the presence of an elected Hamas government in Palestine, religious conflict in Iraq, and Hezbollah’s threat to Lebanon. In November, panelists from Jordan, Lebanon, Egypt, Iraq, and Bahrain documented impediments to democracy in their countries and laid out prescriptions for change.

- Mr. Muravchik’s forceful Washington Post op-ed in June criticized the administration’s weak response to a new wave of repression in Egypt. In a September cover story in The Weekly Standard, he looked at the track record and recent pronouncements of Human Rights Watch.

- Saudi Arabia provides major funding for education and schools throughout the Islamic world. These education efforts have been tainted by hatred and incitement to jihad. A May event at AEI organized by Ms. Pletka reviewed efforts by Saudi Arabia to reform its educational curricula and textbooks.

- Mr. Kagan devoted two of his highly regarded National Security Outlooks to the situation in Iraq. In “Myths of the Current War,” written in February, he argued that progress about the way forward was hampered by distortions about the past. In “There’s No Choice but to Win in Iraq,” written in July, Mr. Kagan made the case that abandoning Iraq now would have devastating consequences for the Iraqi people and would endanger the United States as well. Mr. Kagan met privately with President Bush in June to discuss the situation in Iraq.

- In July, AEI held a session on the future of the Iraqi military at which Lieutenant General Naser Abadi, deputy chief of staff of Iraq’s Joint Forces, spoke.

- In October, AEI hosted a daylong conference on women’s rights in the Middle East. Participants, among whom was prominent Syrian-American psychiatrist, writer, and activist Wafa Sultan, discussed social and political reforms designed to advance women’s rights in the region. Mr. Ledeen moderated the two sessions.

- AEI scholars have been monitoring developments in Iran for years. In the Wall Street Journal, British journalist David Pryce-Jones praised Mr. Ledeen’s 2002 book The War against the Terror Masters as one of the five best books about terrorism, commenting that Mr. Ledeen was the first to point out terrorism’s source at the highest levels of the Iranian government. Senator Sam Brownback (R-Kans.) spoke at a February session at AEI on the emerging Iranian threat. At a June event, Nicholas Eberstadt pointed to the parallels between the failed 1994 U.S.–North Korean Agreed Framework and the Bush administration’s current policy on Iran. Mr. Perle, writing in the Washington Post, argued that the administration was undermining democratic activists in Iran. Mr. Gerecht argued in many forums that the United States should make every effort, including military strikes, to thwart the Iranian clerics’ quest for nuclear weapons.

- In a September Wall Street Journal article, Mr. Gerecht commented on Pope Benedict XVI’s controversial remarks on Islam, faith, and reason.

- Iran has stood in defiance of international calls to halt its nuclear program. In October, AEI held an event at which panelists discussed how the international community should respond. They examined what economic levers could be used to compel compliance and whether the United States should work with internal Iranian movements to pressure the regime.
DEVELOPING WORLD STUDIES

- **Development Policy Outlook** made its debut in early 2006. The first piece in the series, written by Adam Lerrick, argued that the World Bank should end traditional loans and move to a performance-based grant system. Salem College economics professor Craig J. Richardson wrote the second Outlook about how the absence of secure property rights contributed to economic collapse in Zimbabwe and Nicaragua. Visiting fellow Sarath Rajapatirana criticized the UN-developed designation “least developed countries” in the third installment, arguing that it should be abandoned. A fourth Outlook, written by AEI emeritus trustee Henry Wendt and Robert Eichfeld, a former Citibank executive, traced the growth and success of microfinance in the developing world. Research fellow Vance Serchuk is the series editor.

- In articles and presentations, Mr. Lerrick has examined why foreign aid so often fails to achieve results and how it can be reformed. In April, AEI convened a session to discuss a new book on foreign aid, *White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, by New York University economist William Easterly. Mr. Lerrick commented at the session.

- Several AEI events and publications this year dealt with diseases of poverty such as malaria, tuberculosis, and AIDS. These and other health crises take a devastating toll on people in the developing world while simultaneously retarding economic progress. Roger Bate has looked at what is being done and what should be done to combat these diseases. He has also focused on the importance of securing property rights and eliminating high tariffs to promote drug availability. Mr. Bate ramped up his criticism of the World Bank and the World Health Organization this year for nonperformance. His work on water policy in the developing world, including his newest book, *All the Water in the World*, points to the merits of property rights in expanding access to clean water.

- In May, AEI held a panel discussion on efforts to build a national police force in Afghanistan. Mr. Serchuk, one of the panelists, focused on the U.S. government’s failure to create an effective, transparent, and nonsectarian police force, a development that hampers our country’s ability to fight the War on Terror.

AEI FELLOWS & SCHOLARS

- **Frederick M. Hess** is a resident scholar and director of education policy studies at AEI. In 2006 he coauthored the *No Child Left Behind Primer*, published by the AEI Press, and edited *Educational Entrepreneurship: Realities, Challenges, Possibilities*. He is the executive editor of *Education Next* and the author of several books, including *Common Sense School Reform* (2004) and *Tough Love for School* (AEI Press, 2006).

- **Ayaan Hirsi Ali** has been a resident fellow at AEI since September 2006. A native of Somalia, she was previously a member of the Dutch parliament. She researches the relationship between the West and Islam, women’s rights in Islam, and violence against women motivated by religious and cultural arguments. She is the author of *The Son Factory: About Women, Islam, and Integration* (2002) and, most recently, *The Caged Virgin: An Emancipation Proclamation for Women and Islam* (2006).

- **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 *BusinessWeek*, and 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.

- **Frederick W. Kagan** is a resident scholar specializing in defense transformation and strategy. He also researches land power in the U.S. armed forces. His most recent books, both published in 2006, are *The End of the Old Order: Napoleon and Europe, 1801–1805* and *Finding the Target: The Transformation of American Military Policy*. 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*. 
Asian Policy Studies

Current research in Asian studies at AEI focuses on the rise of China and involves a number of AEI scholars, including Claude Barfield, Dan Blumenthal, Nicholas Eberstadt, James R. Lilley, Gary J. Schmitt, and Phillip L. Swagel. Messrs. Barfield and Swagel have concentrated on economic issues, while Messrs. Blumenthal and Schmitt and Ambassador Lilley are studying China’s growing military might. Mr. Blumenthal convened two sessions in 2006 on the rise of China’s military. In May, a panel at AEI discussed China’s naval modernization program and particularly the implications of its acquisition of undersea weapons systems. In July, another panel analyzed China’s expansion and upgrading of its missile force and the implications for the strategic balance in Asia.

In May, Harvard University’s Dwight H. Perkins, one of the leading authorities on the Chinese economy, gave the fifth Henry Wendt Distinguished Lecture on what China’s rapid growth means for China, its neighbors, and the United States. Gary Saxonhouse, an AEI adjunct scholar, wrote an Asian Outlook on the integration of economic giants into the global economy, focusing on China’s path to modernization.

Potential conflict in the Taiwan Strait remains a top research priority. In March, AEI and the Heritage Foundation hosted Ma Ying-jeou, mayor of Taipei and chairman of the Kuomintang Party, to discuss the major challenges facing Taiwan, including that nation’s fragile economic growth, its increasing political partisanship, and the threat from across the Taiwan Strait. In July, AEI held a discussion about a U.S.-Taiwan Free Trade Agreement at which Steve Ruey-Long Chen, Taiwan’s deputy minister of economic affairs and top trade negotiator, spoke. At the session, Messrs. Barfield and Blumenthal addressed questions about how the agreement would impact the bilateral relationship, foster economic liberalization, and affect both nations’ trade relations with China.

India’s future was the subject of several AEI events. U.S. ambassador to India David Mulford spoke at the Institute in April on the U.S.-Indian agreement to share civil nuclear technology. Also in April, Danielle Pletka and Mr. Blumenthal hosted a full-day event that discussed the ramifications of the agreement. AEI hosted Montek Singh Ahluwalia, deputy chairman of the planning commission for the government of India and the country’s former secretary of finance and commerce, who spoke on the increasingly strong U.S.-Indian bilateral economic relationship. Research associate Christopher Griffin wrote an Asian Outlook describing how Beijing is responding to India’s rise.

Mr. Eberstadt and Ambassador Lilley continue to monitor the nuclear threat on the Korean peninsula. In February, visiting scholar Lawrence B. Lindsey, the former director of the White House’s National Economic Council, and Christopher Hill, assistant secretary of state for East Asian and Pacific Affairs, spoke at a daylong AEI conference that looked at the economic situation in South Korea, the belligerence of Kim Jong-II’s regime, and U.S. and South Korean responses. Mr. Eberstadt wrote widely about North Korea’s decision to test a nuclear device.

AEI scholars also monitor developments in Southeast Asia. In May, Mr. Schmitt held a conference on what Southeast Asian governments need from the United States, given the links between separatists in the region and the global terrorist movement and the large share of global trade and energy supplies that pass through the region.

In two editions of AEI’s monthly Economic Outlook, John H. Makin examined Japan’s exit from deflation and the challenges facing its central bank. In another Economic Outlook, Mr. Makin argued that China needs to float its currency. In November, Mr. Blumenthal authored an Asian Outlook on new Japanese prime minister Shinzo Abe.
At the base of international stability and economic freedom are healthy social and political institutions and norms. AEI believes that the freedom Americans enjoy is not merely because of an absence of government interference, but rather the result of the demands of a political culture that animates the laws and principles of liberty. Under a limited government, the work of improving lives is done mostly by families, communities, religious organizations, and voluntary associations.

The Institute’s scholars and fellows examine constitutional law, public opinion, political campaigns and governance, education, social welfare, and the relationship between religion and ordered liberty.

"[Charles Murray] has done more to provoke serious debate on subjects ranging from welfare to IQ than any of the million or so members of American academe, and more to produce changes in America’s welfare state than any of the army of professional politicians."

—The Economist

"Charles Murray is the E. F. Hutton of social policy: when he talks, people listen."

—Boston Review

“It’s an elegant little tract that makes a sustained, sober and fact-driven case for scrapping the whole calcified edifice of the welfare state.”

—Los Angeles Times

“This book deserves to be read. A solution to rising entitlement costs, as well as a description of the raw materials for happiness and the way to get there, is ‘in our hands.’"

—New York Post
Work on the 2006 midterm elections kept the scholars in AEI’s Political Corner busy. In September, the AEI team kicked off the Institute’s popular Election Watch program, featuring Karlyn Bowman, John C. Fortier, and Norman J. Ornstein. The series, which began in 1982, is the longest running election program in Washington.

AEI and the Brookings Institution launched the Election Reform Project in February. Senator Barack Obama (D-Ill.) gave the keynote address on the reforms necessary to remove impediments to voting. The four-year joint venture will monitor the implementation of the Help America Vote Act of 2002 and bring together scholarship on voting reform.

In 2006, Mr. Fortier produced the definitive work on absentee voting, a practice that is growing in importance. Absentee and Early Voting: Trends, Promises, and Perils (AEI Press) traces the history of pre-Election Day voting and raises questions about its widespread practice. In September, Mr. Fortier testified before Congress on representation for the District of Columbia.

Former Speakers of the House Newt Gingrich and Thomas Foley joined a panel discussion at AEI to mark the publication of Mr. Ornstein and Brookings Institution senior fellow Thomas E. Mann’s book The Broken Branch: How Congress Is Failing America and How to Get It Back on Track (Oxford University Press).

Ms. Bowman continued to publish and update a series of AEI Public Opinion Studies. The studies were launched in 2001 after the terrorist attacks. She participated in an AEI panel marking the fifth anniversary of September 11 and discussed change and stability in public attitudes about the War on Terror. There are now more than a dozen AEI Public Opinion Studies on topics such as attitudes toward the war in Iraq, homosexuality, business, work and leisure, abortion, patriotism, and Social Security reform.

David Frum frequently writes about U.S. and Canadian politics for National Review Online, Canada’s National Post, and Italy’s Il Foglio.

A new edition of Vital Statistics on Congress, the popular guide to facts and figures about congressional elections, fundraising, staffs, workload, and other topics, was published this fall. This is the twelfth edition of the book in a series that began in 1980.
Charles Murray’s reputation for bold thinking was confirmed again with the publication of his 2006 AEI Press book, In Our Hands: A Plan to Replace the Welfare State. In the book, Mr. Murray calls for an end to all government and corporate entitlement programs and for their replacement by a $10,000 annual grant to all American adults. In March, AEI invited National Journal columnist Jonathan Rauch to discuss the book, which he described as a “sheer concentration of intellect brought to bear on a very big subject in a very small space.”

In September, AEI welcomed Ayaan Hirsi Ali as a resident fellow. Her research focuses on religion, culture, and women’s rights—particularly the status of women under Islam. Born in Somalia, she sought asylum in the Netherlands and served as a member of the Dutch parliament for three years before her arrival at the Institute. She recently published The Caged Virgin: An Emancipation Proclamation for Women and Islam (Free Press).

In August, the United States marked the tenth anniversary of the welfare reform legislation and the first anniversary of Hurricane Katrina, refocusing national attention on poverty. In an article in the New York Times, Douglas J. Besharov gave the legislation “two cheers,” arguing that it brought down welfare caseloads by 60 percent, but has caused poverty to be “diffused and hidden within larger social welfare programs.”

Nicholas Eberstadt and Mr. Besharov were part of a research team that identified alternative approaches to gauging the well-being of low-income Americans. Thanks in part to their efforts, the Census Bureau is now publishing an additional poverty measure. Mr. Eberstadt published articles in the Washington Post and Policy Review that traced the history of the poverty measure and argued that it was no longer a useful guide to material deprivation.

In their 2006 AEI Press book The Health Disparities Myth: Diagnosing the Treatment Gap, Sally Satel, M.D., and Jonathan Klick challenge the notion that physicians are biased against minority patients. They argue that differences in treatment vary by race, but not because of it. The charge of bias, they say, siphons energy from efforts to improve minority health.

Dr. Satel had a kidney transplant in 2006 and wrote movingly about her experience in an essay in the spring edition of In Character. In June, she organized a conference, “Buy or Die?” to discuss market mechanisms, including payment, to deal with organ shortages.

Leon R. Kass, M.D., and Mr. Eberstadt are members of the President’s Council on Bioethics. In January, Dr. Kass and Eric Cohen of the Ethics and Public Policy Center wrote in Commentary about ethical and philosophical questions surrounding old age, long-term care, and the end of life.

The arguments in Christina Hoff Sommers’s widely acclaimed The War against Boys continue to reverberate. In an article in the Wall Street Journal, she challenged a report published by Education Sector that argued that boys are doing well. In USA Today, Ms. Sommers wrote about how Title IX, which removed barriers to women’s participation in sports, has also caused great damage, in part because it led to the adoption of a destructive quota system that has punished male athletes.

During a daylong conference on the precautionary principle, panelists discussed the implications of risk aversion for technological innovation. The conference, entitled “Panic Attack: The New Precautionary Culture, the Politics of Fear, and the Risks to Innovation,” was organized by AEI adjunct fellow Jon Entine in cooperation with the UK Institute of Ideas.

In April, AEI held a book forum to celebrate the publication of the fifth edition of Edwin J. Delattre’s Character and Cops: Ethics in Policing, the AEI Press’s bestselling book.

The W. H. Brady Program in Culture and Freedom held an event in October on religion and the American future. The conference brought together leading thinkers about religion, including Dr. Kass, David Gelernter, and Michael Novak.

In March, Mr. Novak published Washington’s God (Basic Books), which he wrote with his daughter Jana Novak. The book describes George Washington’s religious views and how they affected his character, leadership, and presidency.

Massachusetts governor Mitt Romney spoke at an AEI conference in March that featured the release of the research paper “A Better Bargain: Overhauling Teacher Collective Bargaining for the 21st Century,” written by Mr. Hess and Martin R. West of Brown University.

Also in 2006, the AEI Press published Mr. Hess’s Tough Love for Schools: Essays on Competition, Accountability, and Excellence. Former secretary of education Roderick R. Paige praised the essays, stating that they “tackle the toughest issues in education.” C-SPAN2’s Book TV covered an event held to discuss the book at the César Chávez Public Charter School in Washington, D.C.

In August, Harvard Education Press published Mr. Hess’s anthology Educational Entrepreneurship: Realities, Challenges, Possibilities. In the volume, Mr. Hess and other authors argue that although entrepreneurs are remaking the face of K–12 education, their work is rarely subjected to careful consideration. AEI held a book forum in early September at which several educational entrepreneurs spoke, including Chris Whittle, the founder and chief executive of Edison Schools Inc.

AEI has launched a new research effort to study the student-loan industry and the role it plays in higher education finance. In September, Mr. Hess convened a daylong research conference on new developments in the industry and how they are changing the way Americans pay for higher education. Among the speakers were Alan Bersin, California’s secretary of education, and Catherine B. Reynolds of Educap Inc.

AEI Fellows & Scholars

Thomas P. Miller joined AEI in August 2006 as a resident fellow in economic policy studies. Previously a senior health economist at Congress’s Joint Economic Committee, he studies health information, consumer resources, interstate insurance competition, and high-cost health insurance claims. Mr. Miller will contribute to AEI’s Health Policy Outlook.


Roger F. Noriega came to AEI in the fall of 2005, having previously served as assistant secretary of the Bureau of Western Hemisphere Affairs in the State Department. Ambassador Noriega coordinates the Institute’s program on Western Hemisphere issues and is the author of AEI’s Latin American Outlook, which is published in English and Spanish.
LEGAL AND CONSTITUTIONAL STUDIES

AEI hosted Supreme Court justice Antonin Scalia in February as the keynote speaker at a conference on the outsourcing of American law. Justice Scalia argued that reliance upon foreign case law could undermine the Constitution. Other speakers included Jack Landman Goldsmith, John Yoo, and Stuart Taylor of National Journal.

Michael S. Greve, director of AEI’s Federalism Project, convened a two-day conference in April on federal preemption of state law. Speakers addressed various facets of the debate over preemption, including its constitutional setting, its historical trajectory, and its present contours and implications in areas such as environmental law and financial, securities, and pharmaceutical regulation. Former independent counsel Kenneth W. Starr and University of Chicago professor Richard A. Epstein were the keynote speakers.

In September, the AEI Press published Democracy and the Constitution: Essays by Walter Berns, the latest installment in its Landmarks of Contemporary Political Thought series. Encompassing Mr. Berns’s lifetime of constitutional scholarship, the essays explore enduring questions of American political thought. At a book forum, Lynne V. Cheney, Robert Bork of the Hudson Institute, and syndicated columnist George F. Will joined Mr. Berns in discussing the book.

Five years after 9/11, experts gathered for a daylong conference assessing U.S. security since the terrorist attacks. One session discussed legal issues relating to the War on Terror. Mr. Yoo, visiting fellow Fred Thompson, the Manhattan Institute’s Heather Mac Donald, and Jeremy Rabkin of Cornell University and the AEI Council of Academic Advisers discussed lessons learned about identifying and prosecuting terrorists. Mr. Yoo’s newest book, War by Other Means: An Insider’s Account of the War on Terror, outlined many of the legal issues surrounding the war. In September, AEI organized a discussion with Mr. Yoo and key Congressional staffers about some of the issues raised in the book.

The judicial response to terrorism was the focus of several other events in 2006. In the wake of Zacarias Moussaoui’s sentencing for involvement in the 9/11 attacks, Deputy Attorney General Paul McNulty gave a May address at AEI about the successes achieved and the challenges faced by the Justice Department in prosecuting terrorists. Earlier in the year, Danielle Pletka led a panel on military tribunals, analyzing Hamdan v. Rumsfeld.

Ted Frank directs AEI’s Liability Project and writes the Institute’s Liability Outlook, a new publication launched in 2006. So far he has written about legislative action to stem asbestos lawsuits by creating a trust fund for asbestos victims. In a two-part AEI working paper on the Vioxx litigation, he wrote about the history of the drug and the implications of current lawsuits on it and other drugs. In “The Taxonomy of Obesity Litigation,” he argued that obesity litigation has been much more successful in transferring wealth to attorneys than in advancing legitimate public policy concerns. Mr. Frank also hosted a conference entitled “Judge and Jury: American Tort Law on Trial,” at which experts discussed the systemic nature of the tort crisis.

In March, Mr. Goldsmith and Tim Wu of Columbia University published Who Controls the Internet? Illusions of a Borderless World (Oxford University Press). They argue that the Internet is falling increasingly under the control of individual nations, a positive development promoting individual freedom and diversity.

John E. Calfee studies medical malpractice issues as part of his work on health policy. In May, AEI held a conference at which he, Mr. Frank, and other scholars examined the critical shortage in health-care providers in certain jurisdictions. They looked at whether ever-growing liability concerns and the failure to limit excessive malpractice damages have caused the shortage. Medical malpractice concerns took center stage at an April conference in which Mr. Greve, Mr. Frank, George L. Priest of Yale Law School, and Stuart L. Weinstein, M.D., of Doctors for Liability Reform analyzed the Senate debate on federal medical malpractice reform.
The research conducted by AEI’s scholars and fellows is intended to have a practical effect: to achieve sensible and effective public policy. It is essential that the Institute be able to communicate its findings to those in positions to act upon the research and to those concerned with the topics it addresses. Therefore, AEI invests in marketing, government relations, academic relations, media contacts, and publications as part of its outreach.

The following pages illustrate the means by which AEI contributes to public policy discourse. Additionally, AEI distributes a monthly newsletter, executive summaries of its books and conferences, and On the Issues—a series of the best general-interest articles its scholars publish. The Institute also publishes thirteen Outlooks, a series of longer essays on pressing policy issues. The Outlooks include monthly publications on developments in the U.S. and world economies, national security issues, and financial services; a quarterly report on Russia; and frequent editions on Asia, Latin America, the environment, federalism, development, health-care policy, and liability. In 2006, AEI launched its Middle Eastern Outlook, which is also available in Arabic and Farsi, and began offering a Spanish version of its Latin American Outlook. The Institute continues to advance its electronic communications efforts, notifying thousands of AEI’s friends and subscribers about its latest activities through daily and periodic e-mail updates on its work in specific policy areas. “Academics and AEI,” a new e-mail newsletter, keeps scholars around the country updated on AEI’s work.

**Outreach**

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 is Washington’s God, which he coauthored with his daughter, Jana Novak. Mr. Novak is also the author of The Universal Hunger for Liberty: Why the Clash of Civilizations Is Not Inevitable (2004).

Resident Scholar Norman J. Ornstein studies politics, Congress, and elections—writing about all three in his weekly Roll Call column. He is codirector of the AEI-Bookings Election Reform Project, founder of the Campaign Finance Reform Working Group, and a member of USA Today’s Board of Contributors. Mr. Ornstein is the author or editor of several books on American politics and political institutions, including The Broken Branch: How Congress Is Failing America and How to Get It Back on Track (2006, with Thomas E. Mann).

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 is also the editor of Reshaping Western Security (AEI Press, 1991).

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.

**AEI Fellows & Scholars**

A format 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 is also the editor of Reshaping Western Security (AEI Press, 1991).

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.
In November, the American Enterprise Institute introduced its new magazine, *The American*. Editor in chief and executive publisher James K. Glassman and his editorial team have created a sophisticated magazine that provides a fresh outlook on American life as seen through the lenses of business and economics. The magazine also promotes the core ideas associated with the Institute.

*The American* is a bimonthly publication, with each issue at a length of about a hundred pages. It is modeled in its tone and design on the early *Fortune* magazine, which used great writing and elegant design to illuminate stories about business, the larger society, and culture. Like *Fortune*, *The American* includes features about art. The first issue examines the work of industrial artist Charles Sheeler, among other topics. The magazine’s content is also available at its dynamic website, www.tamagazine.com.

Mr. Glassman has broad experience on both the editorial and business sides of print and Internet journalism. From 1981 to 1984, he was publisher of *The New Republic*, after which he became the president of *The Atlantic Monthly* and executive vice president of *U.S. News & World Report*. In 1988, Mr. Glassman became editor in chief of *Roll Call*, the newspaper of Capitol Hill, which he made into a must-read for policymakers and members of Congress. Mr. Glassman was one of the first people to appreciate the power and reach of the Internet, and in 2000 he created the popular website TCS Daily (formerly Tech Central Station), which publishes daily online articles and commentary on economics, technology, culture, and international affairs.

The magazine’s team also includes managing editor David Robinson, who worked for the opinion sections of the *Wall Street Journal* and the *Wall Street Journal Asia*, as well as at *Time*, and publishing director Samuel E. Schulman, who helped create and has advised magazines such as *Spy*, *Lingua Franca*, *Red Herring*, *Wigwag*, and *American Girl*.

*The American*’s audience is composed of opinion-shapers and policymakers from the media, academia, Congress, and the administration. It reaches deep into the business community, appealing to CEOs and other executives, board members, private investors, business professors, lawyers, bankers, and managers of hedge funds and private equity funds. Business journalists are also an important component of the new magazine’s readership.

The magazine’s first issue includes articles on why we underpay America’s best CEOs, what the roots of CNN anchor Lou Dobbs’s political left turn are, why Andrew W. Mellon gave America the National Gallery of Art, what a market for human organs might look like, and how Mitt Romney’s entrepreneurial experience may help him run a presidential campaign.
Fifty-three percent of Americans went online yesterday, up from only 4 percent a decade ago. AEI’s website, www.aei.org, is an important way for the Institute to reach the growing Internet audience and to inform it about AEI’s work.

One of the purposes of the website is to quickly update viewers on AEI scholars’ work. The featured topic section on the homepage changes regularly and provides a quick glimpse of what AEI scholars have written about the most important news stories of the day. The homepage also contains a rotating spotlight quote that draws attention to an individual scholar’s work.

The website’s homepage also has eleven links that direct viewers to special projects or to the work of AEI scholars who collaborate with other institutions. The Health Policy Studies Program link leads readers to the multifaceted work of scholars in that area. The Joint Center brings together work by AEI and Brookings Institution scholars, as well as outside contributors, on important regulatory issues. Several of these sites, including NGOWatch, were redesigned in 2006.

AEI continues to upgrade its site to make it more user-friendly. In addition to the homepage, the site has additional tabs that make navigation of the site easy. The Events tab provides a chronological listing of all AEI conferences. It also includes links to summaries, transcripts, and videos of past AEI conferences. Event recordings are also available for download as MP3s. The Books tab informs viewers about new AEI Press books and books by AEI scholars from other publishers. The Short Publications tab leads readers to articles written by scholars and other contributors. Research Areas describes in detail the areas in which AEI scholars work. The Scholars & Fellows tab provides biographical information about AEI scholars.

The AEI website also provides a way to reach 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 enable donors to achieve personal and family financial goals while supporting current and future endeavors for AEI. The website also provides access to the Associates Program, an introductory donor program that allows members to tap into the same intellectual resources upon which many government officials, business executives, and journalists rely.

Individuals seeking jobs or internships at AEI now apply online. The database application creates an efficient flow of information for AEI’s human resources staff members, permitting them to search for specific skills and to find an applicant’s complete record.

Resident Fellow Alex J. Pollock researches financial markets, government-sponsored enterprises, and pension insolvency. 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. In 2006 he offered an alternative plan to President Bush’s personal retirement account proposal. He is a regular contributor to AEI’s Financial Services Outlook.

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). In 2006 he became the primary author of AEI’s Middle Eastern Outlook. 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 Turkish Policy Quarterly.

Sally Satel, M.D., is a resident scholar at AEI and a practicing psychiatrist. She studies transplant policy, domestic drug policy, mental health policy, and political trends in medicine. Her essays have appeared in medical journals as well as in the Wall Street Journal, and the New York Times. Dr. Satel’s most recent book is The Health Disparities Myth: Diagnosing the Treatment Gap (AEI Press, 2006, with Jonathan Klick). Among her other books is One Nation under Therapy: How the Helping Culture Is Eroding Self-Reliance (2005, with Christina Hoff Sommers).

The AEI Press

The AEI Press is an important conduit for disseminating the ideas of the Institute’s scholars and fellows and other leading policymakers. Some highlights from the Press’s recent publications appear below.

Charles Murray has a track record of publishing prescient books. His latest, *In Our Hands: A Plan to Replace the Welfare State*, offers a bold plan to eliminate all income-transfer programs and corporate subsidies. Mr. Murray recommends instead an annual cash grant of $10,000 for life, beginning at age twenty-one, for every American. Since the book’s release, he has been interviewed on dozens of radio shows and spoken about his book nationwide.

*Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*, by John F. Cogan, R. Glenn Hubbard, and Daniel P. Kesler, is a landmark study of how to improve health care in America through simple, incremental reforms that would allow the marketplace to function properly. Many news accounts suggested that the book, copublished with the Hoover Institution, was influential in the president’s 2006 State of the Union address.

In *The Business of Health*, authors Robert L. Ohsfeldt and John E. Schneider assess the evidence that the profit motive is the cause of fundamental problems in America’s health-care system, asking whether it results in excessive costs, inequitable access to care, or inferior quality. They conclude that the U.S. health-care system’s deficiencies are more directly attributable to flawed policy than to incompatibility between good health care and profit-seeking providers.

For more than half a century, Walter Berns has been a leading authority on the Constitution. *Democracy and the Constitution: Essays by Walter Berns* contains many of his most important writings on timeless constitutional and political questions and on topics such as patriotism, academic freedom, and political correctness.

John C. Fortier’s monograph *Absentee and Early Voting: Trends, Promises, and Perils* sketches the history of casting ballots early, absentee, or by mail. Mr. Fortier analyzes the strengthening nationwide trends toward such voting and assesses the drawbacks and benefits of such practices.

In *The Sarbanes-Oxley Debacle: What We’ve Learned; How to Fix It*, authors Henry N. Butler and Larry E. Ribstein argue that the Sarbanes-Oxley Act of 2002 has been a costly failure. The authors demonstrate that the law has onerous consequences for firms that must comply with new regulations, and is harmful to the ordinary investors it means to protect. This new book—and the work of AEI scholars such as Peter J. Wallison—is shaping the contours of legislative responses to corporate misconduct.

In Jon Entine’s *Let Them Eat Precaution: How Politics Is Undermining the Genetic Revolution in Agriculture*, contributors discuss the environmental and social benefits of using genetically modified organisms in agriculture, and the politically motivated opposition to their use.

The eleventh edition of the *Index of Leading Environmental Indicators*, by Steven F. Hayward (copublished by the AEI Press and the Pacific Research Institute) highlights positive trends in environmental research on climate change, air and water quality, chemical releases, and biodiversity.

*Information Markets: A New Way of Making Decisions*, edited by Robert W. Hahn and Paul C. Tetlock, analyzes the potential of information markets to aid decision-making in both the public and private sectors. The contributors discuss what we really know about information markets and their potential for improving public policy.


Sally Satel, M.D., and Jonathan Klick argue in *The Health Disparities Myth: Diagnosing the Treatment Gap* that differences in health care across racial lines are complex and not attributable to bias on the part of health-care providers.

Based on his experience in education policy and as a public school teacher, Frederick M. Hess wrote *Tough Love for Schools: Essays on Competition, Accountability, and Excellence*, in which he advocates entrepreneurship, challenge, and innovation in public education.

This year AEI Press published the fifth edition of its bestselling volume, Edwin J. Delattre’s *Character and Cops: Ethics in Policing*. In the book, Mr. Delattre discusses how police officers can meet the ethical challenges of policing under today’s more rigorous demands for security.
AEI disseminates the best academic research from Washington and around the country to government and business audiences, and in turn, the Institute brings the concerns of government officials and businesses to the attention of the scholarly community.

AEI's eleven-member Council of Academic Advisers, led by political scientist James Q. Wilson, advises AEI's president on the Institute's research agenda, publications, and appointments. Each year, the council selects the recipient of the Irving Kristol Award.

The Institute has more than a hundred adjunct fellows at universities across the United States. Many of these policy experts hold positions at the country's most prestigious universities, including the University of California at Berkeley, Carnegie Mellon University, the University of Chicago, Harvard University, and Yale University. Visiting scholar R. Glenn Hubbard is the dean of Columbia University's Graduate School of Business.

AEI scholars publish in some of the country's most important academic journals. Nicholas Eberstadt was honored this year when the International Journal of Epidemiology republished an essay Mr. Eberstadt had written as a graduate student on Russia's demographic situation. AEI's economists have published in journals such as The American Economic Review, Econometrica, and the Journal of Political Economy. Joseph Antos wrote about market tradeoffs in the Medicare prescription drug benefit in Health Care Financing Review, and John E. Calfee and Elizabeth Du Pré have been published in Health Affairs. In foreign policy, AEI scholars are involved with a number of scholarly journals. Michael Rubin is the editor of the Middle East Quarterly. Other scholars are contributing editors to academic journals. They also act as referees for journals and review other scholars’ articles prior to publication.

The AEI internship program is regularly ranked as one of the nation’s best. The program connects the Institute with many universities across the United States and around the world, pairing students with AEI scholars in all policy areas. In the spring and summer of 2006 alone, the program hosted ninety-four interns.

The American Political Science Association gave one of its Frank J. Goodnow Distinguished Service Awards to Norman J. Ornstein in 2006 in recognition of his long career of scholarship.

**AEI Fellows & Scholars**

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 (AEI Press, 2003), he is a contributor to AEI’s Environmental Policy Outlook and frequently writes articles for TCS Daily and other publications.


Resident Scholar 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.

The National Research Initiative (NRI), now in its fifth year, seeks to expand the Institute’s reach by supporting the work of university-based academics, freelance authors, journalists, independent researchers, and others. The program’s scope extends to most areas of domestic policy, including tax policy, entitlements, fiscal policy, government regulation, education, social welfare, health care, domestic security, the legal system, and political institutions.

Visiting scholar Richard Vedder is one of NRI’s most active authors. His 2004 AEI Press book on the cost of higher education, Going Broke by Degree, continues to garner attention. After Secretary of Education Margaret Spellings read it, she appointed Mr. Vedder to the Commission on the Future of Higher Education. With Wendell Cox, the principal of Wendell Cox Consultancy, Mr. Vedder is writing a book on Wal-Mart to be published in late 2006. In The Wal-Mart Revolution: How Big Box Stores Benefit Consumers, Workers, and the Economy (AEI Press), the authors will provide new research on Wal-Mart’s impact on wages and productivity growth in local markets it has entered, and will also examine Wal-Mart’s true role in the economy. Mr. Vedder also wrote a number of op-eds on Wal-Mart and on higher education this year.

Steven J. Davis organized a series of conferences at AEI on labor market issues and on how high income tax rates reduce the number of hours—and therefore income—available to workers. At a conference at AEI in March, he argued that the United States has gained its most important productivity growth from competitive innovation.

Edward Blum and the Manhattan Institute’s Abigail Thernstrom have each been working on NRI books on the Voting Rights Act, which was reauthorized in July. They have also contributed essays and articles on the subject.

Following up on his 2004 book End of the Line (AEI Press), NRI author Joseph Vanich spoke at AEI in April about the rail service in a conference entitled “Amtrak: Thirty-Five Years of Subsidies, Waste, and Deception.”

In February, AEI cosponsored with the UK Institute of Ideas a daylong conference to celebrate the publication of the AEI Press book Let Them Eat Precaution: How Politics Is Undermining the Genetic Revolution in Agriculture, edited by adjunct fellow Jon Entine. The essays in the volume look at the risks and rewards of genetic modification in an effort to bring a more rational approach to public policy debate on the subject. Panelists at the conference broadened the discussion and described the danger to society in adopting policies that limit all health risks. In 2006, Mr. Entine also organized AEI conferences on nuclear power and corporate social responsibility. He writes a monthly column for the magazine Ethical Corporation.

Joel Schwartz continues to examine the costs and benefits of environmental policies. Mr. Schwartz contributed to AEI’s Environmental Policy Outlook series in 2006, arguing that popular portrayals of air pollution health risks do not reflect the underlying scientific evidence. In a June article on washingtonpost.com, Mr. Schwartz challenged the Environmental Protection Agency’s new standards, which impose expensive burdens for lowering ozone levels without demonstrating that the results are worth the enormous costs. Mr. Schwartz’s paper on the social benefits and costs of the automobile was reviewed favorably in the Journal of Transportation Law, Logistics and Policy. Roger Bate, whose work is discussed on the health policy, environmental policy, and developing world pages of this report, first joined AEI as a visiting fellow through NRI.

NRI’s doctoral and postdoctoral fellowship program is highly popular and has extended the Institute’s reach. Aparna Mathur and Mario Villarreal were NRI fellows and are now AEI research fellows. Ms. Mathur’s work this year examined the importance of medical debts in bankruptcy. In a paper written with Kevin A. Hassett, she demonstrated how employees, not corporations, bear the burden of high corporate tax rates. Their work was cited in The Economist in July, and their paper was published in the nation’s premier economic journal, The American Economic Review. Ms. Mathur also wrote a paper for the AEI-Brookings Joint Center for Regulatory Studies that found that health insurance mandates reduce small-business job creation. Mr. Villarreal’s research demonstrates how intellectual property rights promote pharmaceutical innovation and how patents can improve access to medicines in less-developed countries.

NRI also hosted book forums this year for University of Virginia professor E. D. Hirsch’s The Knowledge Deficit (Houghton Mifflin), Kauffman Foundation president Carl Schramm’s The Entrepreneurial Imperative (HarperCollins), and Washington Post reporter Brooke A. Masters’s Spoiling for a Fight: The Rise of Eliot Spitzer (Times Books).
Conferences

- At the Charles Wohlstetter Conference Center at the Institute’s headquarters in downtown Washington, D.C., government officials, scholars, business executives, and journalists discuss important policy issues with the Institute’s research faculty. Forums are also held for new books by AEI scholars. Other AEI conferences take place on Capitol Hill, in government briefing rooms, in cities throughout the United States, and overseas. During the first nine months of 2006, AEI held more than 150 conferences and other events, many of which were covered by C-SPAN. Visitors to AEI’s website can view videos and download podcasts of most conferences or read conference summaries.

- The Bradley Lecture Series is in its seventeenth year. The popular series is made possible by the generous gift from the Lynde and Harry Bradley Foundation of Milwaukee, Wisconsin. The series, which ranges widely in subject matter, aims to enrich the policy debate in Washington. Among the distinguished speakers this year were Shelby Steele, who delivered a lecture entitled “White Guilt and War”; John McWhorter, who addressed the crisis in black America; and Robert Aishina, who gave the audience a preview of his book just Americans. AEI’s new national fellow, David Gelernter, spoke on “A Religious Idea Called ‘America.’”

- The noted historian David Hackett Fischer gave AEI’s 2006 Irving Kristol Lecture during the Institute’s annual dinner at the Washington Hilton hotel, attended by more than 1,000 guests. The Kristol Award is the Institute’s highest honor, recognizing those who have made important intellectual or practical contributions to public policy and social welfare. Past recipients include the Peruvian novelist and essayist Mario Vargas Llosa, columnist Charles Krauthammer, and AEI’s Allan H. Meltzer.

- AEI has two other lecture series. In 2006, Dwight Perkins, the Harold Hitchings Burbank Professor of Political Economy at Harvard University, gave the fifth Henry Wendt Distinguished Lecture, an annual address devoted to enhancing our understanding of globalization. This year’s AEI-Brookings Joint Center Distinguished Lecture was delivered in November by Stanford University’s Roger Noll.

- The AEI World Forum, the Institute’s most prestigious event, is held each June in Beaver Creek, Colorado. The World Forum, which has taken place annually since 1982, brings chief executives of many of the world’s largest companies together with senior foreign and domestic officials and AEI scholars to discuss policy issues of global significance.

AEI Fellows & Scholars

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 or editor of many books, including the AEI Press’s Privatizing Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (2004, with Thomas H. Stanton and Bert Ely), and the Journal of Financial Services Regulation (2005).

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

Visiting Scholar John Yoo,
a professor of law at the University of California–Berkeley, examines counterterrorism, sovereignty, and other areas where law intersects with international affairs. His most recent book, War by Other Means: An Insider’s Account of the War on Terror, was published in October 2006. He is also the author of The Powers of War and Peace (2005). His articles have appeared in publications such as the Wall Street Journal, the Los Angeles Times, and the Legal Times.
The work of AEI scholars is cited virtually every day in the national media. Scholars regularly appear on television and are prominently featured in the nation’s leading newspapers and public affairs magazines. Their original articles are also published widely in numerous print outlets. A steady stream of journalists comes through AEI’s doors for the Institute’s conferences. In addition, the press office brings bureau chiefs, key reporters, and columnists together with AEI scholars and policymakers to discuss hot policy issues.

This year, the popular NewsHour with Jim Lehrer celebrated its thirtieth anniversary. AEI scholar Norman J. Ornstein was the program’s most frequent guest, appearing on the show on 143 occasions. In a Wall Street Journal article, Nicholas Eberstadt was called “Washington’s leading expert on global demographic trends.” The same week, Washington Post columnist Robert Samuelson discussed the work of Mr. Eberstadt and Ben J. Wattenberg, whose influential research on demographics explains many of the reasons behind the global “birth dearth.”

Many AEI scholars contribute regularly to news magazines, and others edit journals. Karlyn Bowman writes a biweekly column for Roll Call that focuses on new public opinion polls. John C. Fortier writes a weekly column for the Hill, one of the two main Capitol Hill newspapers. David Frum is a contributing editor to National Review, a regular columnist for National Review Online, and a columnist for Canada’s National Post and Italy’s Il Foglio. James K. Glassman, in addition to editing AEI’s magazine, The American, writes a weekly column on policy issues for Scripps Howard News Service and is a financial columnist for Kiplinger’s Personal Finance. AEI economist Kevin A. Hassett writes a weekly column for Bloomberg.com, and Frederick M. Hess is the executive editor of Education Next. Herbert G. Klein, who started his career as a copy boy in 1941 and rose to be the first White House director of communications, writes for Copley News Service. Joshua Muravchik is on the editorial board of World Affairs and the Journal of Democracy. Norman J. Ornstein’s unrivaled knowledge of Congress provides the grist for his weekly column in Roll Call. In addition to writing AEI’s new Middle Eastern Outlook, Michael Rubin is the editor of the Middle East Quarterly. Mr. Frum, David Gelernter, Reuel Marc Gerecht, and Frederick W. Kagan are contributing editors of The Weekly Standard.

The popularity of Internet publishing has beckoned AEI scholars, and many of them write for websites. Ted Frank contributes to the tort reform blog Overlawyered. Mr. Glassman writes for TCS Daily, a website that provides news and commentary on a wide variety of technology issues relating to business and public policy. Joel Schwartz, Roger Bate, and Mr. Hassett contribute regularly to other blogs and Mr. Ornstein posts occasionally for Huffington Post, a popular political blog. Michael A. Ledeen and Michael Novak are contributing editors to National Review Online. Joshua Muravchik, Danielle Pletka, and Michael Rubin write regularly about the Middle East on bitterlemons.org.

AEI scholars are a familiar presence on television and radio programs. Newt Gingrich is a news and political analyst for FOX News and appeared this year on many television shows, including Meet the Press. In August, Mr. Gingrich hosted a FOX News special on the cost of higher education, with AEI visiting scholar Richard Vedder as one of his guests. Mr. Ornstein is an election analyst for CBS News.

PBS’s Think Tank, a weekly policy program hosted by Mr. Wattenberg, is now in its twelfth season. In 2006, Mr. Wattenberg hosted shows on literary giants Mark Twain and Ogden Nash. He dipped into politics with shows on Rudy Giuliani, the immigration debate, and the successes and failures of neoconservatism. He also hosted Judith Martin, a.k.a. Miss Manners, on “Why Manners Matter.”
During 2006, AEI scholars briefed members of Congress and their staffs on numerous issues. Alex J. Pollock and Peter J. Wallison spoke about problems with Sarbanes-Oxley; Frederick M. Hess about the 2007 reauthorization of the No Child Left Behind Act; R. Glenn Hubbard on issues in healthcare reform; Danielle Pletka, Dan Blumenthal, and Phillip L. Swagel on energy issues and the emergence of China as a major oil consumer; and Véronique de Rugy on budget and tax policy and the entitlement explosion. Charles Murray spoke at two separate member and staff briefings about his latest book from the AEI Press, *In Our Hands: A Plan to Replace the Welfare State*.

AEI scholars testified before congressional committees an average of once a week while Congress was in session. Those giving testimony included Adam Lerrick, who addressed the Senate Foreign Relations Committee on problems at the World Bank and the International Monetary Fund; Mr. Pollock, who testified before the Senate Judiciary Committee on hedge fund oversight; James K. Glassman, who appeared before the House Financial Services Subcommittee on Foreign Investment; John Yoo, who testified about British counterterrorism methods before the Senate Appropriations Subcommittee on homeland security; and Joseph Antos, who testified before a House Appropriations Subcommittee on funding for health services research.

Several high-level U.S. government officials spoke at AEI this year, including White House senior advisor and deputy chief of staff Karl Rove, who defended the Bush administration’s record on the economy, and Secretary of Homeland Security Michael Chertoff, who discussed the administration’s immigration reform proposals at a June session. Supreme Court justice Antonin Scalia spoke about the use of foreign case law at a February conference. Also in February, Senator Barack Obama (D-Ill.) gave the keynote address at an event launching the Election Reform Project, cosponsored with AEI by the Brookings Institution. In April, Representative Bill Thomas (R-Calif.), chairman of the House Ways and Means Committee, spoke about U.S. trade policy. Chris Cox, chairman of the Securities and Exchange Commission, gave an address in May. Federal Reserve governor Kevin J. Warsh spoke at an AEI conference in July. Senator Chuck Hagel (R-Neb.) and Office of Federal Housing Enterprise Oversight director Jim Lockhart commented on government-sponsored enterprise reform at a September event. In September, Representative Pete Hoekstra (R-Mich.), chairman of the House Permanent Select Committee on Intelligence, spoke about the committee’s new report on al Qaeda. In October, U.S. Trade Representative Susan C. Schwab assessed the future of the world trading system in the wake of the collapse of the Doha talks.

In addition to federal officials, state-level officials have also participated in AEI events. In March, Massachusetts governor Mitt Romney spoke about the success of education reform in his state. California education secretary Alan Bersin spoke at a conference on the private student-loan market in September.

AEI scholars are frequently consulted by officeholders and senior-level government staff. Frederick W. Kagan participated in a meeting of analysts invited to Camp David in June to discuss the situation in Iraq with President Bush. Reuel Marc Gerecht attended a private luncheon briefing on Iraq with President Bush, Vice President Cheney, Secretary of Defense Donald Rumsfeld, and the chairman of the Joint Chiefs of Staff, Peter Pace, in August. In February, Nicholas Eberstadt was appointed to serve a two-year term on the President’s Council on Bioethics, joining Leon Kass, M.D., who previously served as its chairman.

The government relations office organizes small group dinners at AEI with guests from Congress, the administration, public policy groups, and the business community to facilitate exchanges of ideas. Among the topics discussed in 2006 were health-care reform and the Sarbanes-Oxley Act.
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AEI finances are reported in accordance with GAAP accounting conventions. By those standards, the Institute had 2005 revenues of $37.9 million and expenses of $21.5 million. Foundation revenues increased 35 percent and corporate support was up 22 percent over the previous year.

GAAP requires the net present value of multiyear commitments be recognized in the year the pledges are made, even though some of those funds may be received in the future. Roughly $10 million of the individual revenue reported represents forward commitments. Excluding these commitments, individual support increased by 3 percent.

A 20 percent increase in foreign policy and defense research expenditures led a total expense increase of 8 percent over the previous year. The share of total Institute resources devoted directly to research remained stable at 82 percent.

AEI’s investments are beginning to provide a degree of stability the Institute has never enjoyed before. For the last two years, investment income covered about 22 percent of AEI’s expenses. But that still leaves a significant requirement for annual fundraising, so we are grateful to the many corporate, founda- tion, and individual friends who provide the support that makes our work possible.

AEI makes certain tax filings publicly available. It also supplements its required financial disclosure by providing copies of its audited financial statement upon request.