Message from the Chairman and President

This has been a challenging year for our nation. The financial and fiscal crises continued to hurt the private and philanthropic sectors of our economy, and America’s system of free enterprise came under sustained attack. Yet in every challenge lies opportunity. Two thousand ten has been a year of tremendous opportunity and achievement for AEI. Thanks to the leadership of our trustees and generosity of our supporters, we have achieved remarkable progress on many fronts.

From our tax-reform prescriptions to our work on the causes of the financial-markets meltdown, from our education-reform research to our work on America’s defense needs, AEI is showing that liberty, opportunity, and entrepreneurship are not only good economic principles, but also moral imperatives. Our Election Watch program examined the key developments in a highly charged political year and addressed major issues the 112th Congress will confront. AEI’s Critical Threats Project tracked the spreading terrorist threat and the growing influence of Iran, and our foreign and defense policy team made the case for continued American military leadership.

Our 2010 achievements put us in position to have an even greater influence in 2011. Americans will continue to debate the policies that have harmed enterprise at home and our security abroad. As they do, AEI’s work will be more important than ever before. Our successes will be built on three strategic pillars.

Pillar One: Producing the best nonpartisan research and policy analysis in America. This year, AEI published scholarly books such as James Q. Wilson’s *American Politics, Then & Now* and Thomas Donnelly and Frederick W. Kagan’s *Lessons for a Long War: How America Can Win on New Battlefields*. We added to the ranks both young talent and top academics, and we will continue to do so. In 2011, look for aggressive growth in our research that addresses short-term policy dilemmas as well as long-term solutions to America’s severest challenges.

Pillar Two: Building new audiences. Great AEI scholarship and ideas must reach leaders who can put them into practice. We began the biggest-ever upgrade to AEI’s communications capabilities. It includes new outreach methods and technologies, better penetration of the policymaking community, and expansion of our educational offerings. In 2011, look for dramatic new video and web products, a growing presence on Capitol Hill, and new programs from AEI Education to help shape the leaders of tomorrow.

Pillar Three: Making the principled case for free enterprise. AEI was founded in 1938 to promote “a greater understanding of the social and economic advantages accruing to the American people through the maintenance of our system of free, competitive enterprise.” Since the beginning, we have understood free enterprise to be an expression of the American people at their best, to be supported for more than just economic reasons. This year, we made the principled case for free enterprise in *The Battle: How the Fight Between Free Enterprise and Big Government Will Shape America’s Future*. In 2011, look for AEI to translate principles into practice by applying American values to key areas of public policy.

Our agenda for the coming year is ambitious, but AEI’s community of scholars and supporters knows that the free-enterprise system must be aggressively defended. This is why AEI was founded seventy-two years ago. We exist for times such as these. With your support, we pledge ourselves to a brighter future, to renewal and flourishing for our nation, and to American greatness through American enterprise.

Kevin B. Rollins        Arthur C. Brooks
Chairman                President
AEI’s founders understood that the free-enterprise system cannot be taken for granted and must be actively defended. Their insight is especially important in the wake of the most serious economic crisis in more than eighty years—a crisis that rocked public and market confidence. In its aftermath, many have equated mistakes made by the government and policymakers with a failure of the market system itself. Mounting a defense of free enterprise started at the top at AEI with the publication of Arthur C. Brooks’s book *The Battle*. AEI’s team of economists provided crucial assessments of financial market, housing, health care, and environmental policies and what is needed to reinvigorate the system.

Vincent R. Reinhart and Peter J. Wallison, along with the other scholars in AEI’s economic and financial-markets group, have been documenting the narrative of the financial crisis. Drawing on his experience as a longtime observer of monetary policy and as a Fed official, Mr. Reinhart compiled market data and firsthand accounts of those who experienced the crisis for the forthcoming AEI Press volume *No Way Out? Government Intervention and the Financial Crisis*. For more than a quarter century, Mr. Wallison has been arguing against ill-considered financial-markets policies. Last year, he was appointed to the ten-member Financial Crisis Inquiry Commission established by Congress to report on the causes of the crisis. (AEI’s Bill Thomas is the commission’s cochair.) The report is scheduled for release in December 2010. Mr. Wallison identifies federal affordable-housing policies and the buildup of weak and high-risk mortgages as the primary culprits of the financial crisis. In more than a dozen *Wall Street Journal* op-eds this year and in monthly AEI *Financial Services Outlooks*, Mr. Wallison dissected the crisis and warned that new regulation could cripple the most innovative and successful financial system the world has ever known. Mr. Wallison and Alex J. Pollock’s work on the problems at Fannie Mae and Freddie Mac—the giant government-sponsored housing...
finance enterprises—and their contribution to the financial crisis will be influential when Congress takes up an overhaul of the nation’s housing policy next session.

As the immediate financial crisis subsided, interest shifted to concerns about the health of and long-term outlook for the economy. As a result of government growth, spending as a share of GDP reached 25 percent for the first time since World War II, and the deficit ballooned to 10 percent of GDP. John H. Makin, Desmond Lachman, and Mr. Reinhart voiced warnings about a double-dip recession and the threat of Japanese-style deflation. Allan H. Meltzer dissented, arguing that instead of worrying about deflation, policymakers should focus on reducing uncertainty and restoring confidence in the markets. Mr. Lachman’s prescient warnings about Europe’s financial health and the International Monetary Fund’s rescue plans garnered wide comment. He argued provocatively that many emerging-market economies are growing more rapidly and have sounder public finances than many industrial nations.

Alan D. Viard, AEI’s lead scholar on tax policy, has been a much-sought-after commentator for discussions of the expiration of the Bush tax cuts. In the June 2010 AEI Tax Policy Outlook, he and Kevin A. Hassett, drawing on Mr. Viard’s work, examined proposed tax hikes on the carried interest earned by private-equity and other fund managers. Mr. Viard continued to write his highly regarded “On the Margin” column for Tax Notes. One column, coauthored with American University’s Robert Carroll, addressed the advantages and disadvantages of the much-discussed value-added tax. In anticipation of the debate on fundamental tax reform, Messrs. Viard and Carroll will complete a book next year advocating the replacement of the income-tax system with a progressive consumption tax. Mr. Viard was a finalist for Tax Notes “Person of the Year.”

Andrew G. Biggs has been at the forefront of discussions on Social Security reform—currently under consideration by President Barack Obama’s fiscal commission—and on reforming the federal Pension Benefit Guaranty Corporation, which backstops private-sector pensions. His recent work on public-sector pension accounting has also been widely cited. Mr. Biggs showed that misleading accounting methods allow state and local governments to hide trillions of dollars in unfunded pension liabilities, the cost of which calls into question the fiscal viability of a number of states. In addition, Mr. Biggs published work showing that federal government salaries are 12 percent higher than those for similar private-sector workers, an imbalance that could cost taxpayers $400 billion over ten years. This work dovetails with a project Mr. Biggs is conducting with Mr. Hassett on countries that have managed to overcome large budget deficits. One common feature of successful fiscal consolidations is efforts to control government-sector wages.
In his popular Bloomberg and National Review columns, Mr. Hassett, who directs economic policy studies at AEI, dissected the causes of market pessimism, evaluated the performance of President Obama and his advisers, and advocated policies designed to create jobs and return the economy to sustained growth. He described the flaws in the stimulus, challenged Congressional Budget Office estimates of its effects, and argued against a new one. Robert Barro, who spent the summer at AEI as a visiting scholar, called the stimulus “probably the worst bill that has been put forward since the 1930s.”

AEI’s new U.S. Economic Competitiveness Project, headed by Philip I. Levy and Mr. Hassett, also addresses concerns about the country’s long-term economic health. The research examines the impact of tax, regulatory, and employee-benefit policies on the infrastructure of American businesses.

Like the housing sector, the health care system is in intensive care. The passage of the 2,500-page health care legislation ensures that the health care debate will be with us for some time, with rolling implementation dates, court challenges, and popular confusion. Many of the law’s significant changes begin in 2011, and AEI scholars will have many opportunities to fight for smarter reform. A Better Prescription, an AEI monograph authored by Joseph Antos and Thomas P. Miller and published as the final bill was being debated, described what effective market-based health care policy could look like. Mr. Miller addressed the sensitive issue of helping people who have pre-existing conditions obtain insurance. Richard Foster, the chief Medicare actuary, used an event at AEI to highlight his objections to this year’s Medicare Trustees’ report, which claimed that the health care bill would make Medicare stronger and reduce costs.

Bringing his special knowledge as a practicing physician to the debate, Scott Gottlieb, M.D., continued to show how government policies interfere with doctor-patient relationships. In op-eds before the health bill passed, Dr. Gottlieb predicted correctly that consumers would be offered increasingly slim rosters of in-network doctors and hospitals, with large copays for going outside the system. John E. Calfee and Dr. Gottlieb continued their investigations of government policies that inhibit pharmaceutical innovation. Since 2004, Roger Bate has championed the cause of eliminating tariffs on essential medicines and supplies. This year, two African presidents, Yoweri Museveni of Uganda and Jakaya Mrisho Kikwete of Tanzania, joined the cause.

Regulatory activity has grown substantially in the first two years of the Obama administration. AEI’s Center for Regulatory and Market Studies reviews new regulations through studies—many accompanied by lively conferences—on subjects ranging from electricity regulation to regulation of Bisphenol A (BPA) to the benefits of Europe’s liberal policies permitting international airlines to offer service on domestic routes. In July, Christopher DeMuth organized a conference on U.S. regulatory policy and free enterprise, part of the Institute’s joint research venture with the National Chamber Foundation of the U.S. Chamber of Commerce, and he presented a paper analyzing the growth of regulation across administrations of both political parties.

Steven F. Hayward and Kenneth P. Green authored several papers, both jointly and individually, on global-warming science and policy, the “Climategate” scandal, and energy regulation. Their timely AEI Energy and Environment Outlook on oil spills, “The Dangers of Overreacting to the Deepwater Horizon Disaster,” received widespread attention.

Mr. Hayward’s annual Index of Leading Environmental Indicators, an indispensable reference work...
published each Earth Day since 1996, went digital in 2010, appearing as the Almanac of Environmental Trends. With its own dedicated website, www.environmentaltrends.org, the Almanac features expanded national and international data series, continual updates, interpretive materials, and even a smart-phone app. Mr. Green completed a monograph exploring the role energy plays in our civilization and the key tradeoffs in affordability, availability, and reliability that affect energy production and consumption. In October, AEI, Brookings, and the Breakthrough Institute outlined a new approach to energy policy. The paper, praised by David Leonhardt of the New York Times, argues for deploying substantial federal government and private-sector resources to create an energy revolution.

Michael S. Greve is completing his treatise, Constitutional Structure, to be published in 2011 by Harvard University Press. The work proposes an important departure from current “original intent” jurisprudence: that individual provisions of the Constitution be understood as part of the document’s structure of competitive federalism and checks and balances among different branches and levels of government. Looking at provisions from the standpoint of the Constitution’s freedom-protecting structure, rather than examining just the words and phrasing of each provision, yields important insights on how they should be interpreted and applied. The Greve structural approach revives many long-dormant features of the Constitution and draws on the thought and opinions of Supreme Court justices from across the philosophical spectrum. In 2010, Mr. Greve also wrote and spoke on current constitutional issues before the U.S. Supreme Court and organized AEI’s third annual Transatlantic Law Forum (sponsored with Germany’s Bucerius Law School), on “The Financial Crisis, the European Treaties, and the U.S. Constitution,” held at AEI in October and in Berlin in November.

“Through at least 2012 President Obama would veto any law repealing his signature health-care legislation. What, then, can Republicans do in the next two years? Look to the states . . . Governors [need to] perform as much radical surgery as possible on the exchanges [the core of ObamaCare]. . . . By offering their own market friendly versions of exchanges, they will establish an alternative to ObamaCare and its one-size-fits-all health plans.”

—SCOTT GOTTlieb, M.D., AND THOMAS P. MILLER writing in the Wall Street Journal, October 14
For those who believe America must carry the banner of freedom, the first two years of Barack Obama’s presidency have represented a radical retreat. The administration’s prosecution of the war on terrorism has been halting, predicated largely on remote-control assassinations and not on the battle for hearts and minds against Islamic extremism. More broadly, the administration has yet to address chronic underfunding of core defense capabilities. Although Iran and North Korea offered new lessons in the true nature of their regimes throughout the year, the president argued relentlessly that engagement is a panacea, allowing valuable time to slip away as both have built their arsenals. In Asia, the administration reversed some early missteps, shoring up South Korea and reassuring Japan, but given China’s growing dominance in the Asia-Pacific, more needs to be done to preserve American and allied interests there. As Hugo Chávez spread his toxic influence in Latin America, the administration missed opportunities to isolate him. And, finally, President Obama continued to downplay the importance of U.S. strategic pre-eminence and to denigrate the very notion of American exceptionalism.

The United States has been at war with Islamist extremists for more than two decades. AEI’s Critical Threats Project, directed by Frederick W. Kagan, tracks the global challenges of this war. This web-based project focuses on the threats posed by al Qaeda, associated violent Islamist groups, and Iran, the latter through IranTracker.org. It also addresses threats emerging from Pakistan, Afghanistan, the Arabian Peninsula, the Horn of Africa, and the Levant.

As he did during critical stages of the Iraq war, Mr. Kagan has been setting the tone for discussions about the way forward in Afghanistan and our prospects for success. Defense Secretary Robert Gates recently credited Mr. Kagan for changing his mind about the prospects there in the early stages of the administration’s review of the situation. Mr. Kagan has worked closely with General David Petraeus in Afghanistan to assess U.S. operations.

AEI’s Critical Threats work anticipated key developments throughout the year. The project detailed the rise of the Yemen-based al Qaeda in the Arabian Peninsula six months before the
attempted Christmas Day attack; started tracking the Somali terror group al Shabaab nearly a year before the bombings in Kampala, Uganda; and predicted an operational link between the Pakistan Taliban and the Times Square attack before the administration acknowledged a connection.

The project’s Iran coverage describes how Tehran expands its influence abroad, maintains its grip on power at home, pursues its nuclear ambitions, and supports terrorist proxies in the region. Mr. Kagan’s articles ignited discussion about Iran’s efforts to undermine the political process in Iraq and foreshadowed growing concern about the U.S. drawdown there.

AEI’s Global Business in Iran project has become a key tool for researchers and policymakers to understand international involvement in Iran’s business sectors. Danielle Pletka testified several times on Iran sanctions, and soon after the adoption of sanctions resolutions in mid-2010, Global Business in Iran started assessing their impact.

Michael Rubin and Ali Alfoneh’s work on Iran has been especially influential. Senior military and intelligence leaders as well as lead congressional committees have drawn on Mr. Alfoneh’s unparalleled knowledge of the growing economic and political role of the Islamic Revolutionary Guards Corps. The Iran News Round Up, a daily collection of news from Iran, compiled by Ahmad Majidyar and Messrs. Rubin and Alfoneh, is considered a must-read by Washington’s journalists and intelligence analysts. Mr. Rubin, also a close observer of Turkey, highlighted that country’s shift away from the West and toward the pro-Iran club.

Dan Blumenthal, Thomas Donnelly, and Gary J. Schmitt are leading Asia in the Balance: The Future of U.S. Strategy and Policy, a new project seeking to shape the next American century in the Pacific. Their work began in October, when AEI hosted its first Asia Strategy Retreat for key policymakers.

Mr. Blumenthal continues to comment on the administration’s Asia policy, writing on the China-Taiwan Economic Cooperation Framework Agreement, the aftermath of North Korea’s sinking of the Cheonan, and U.S.-China policy. His op-ed on Beijing’s claim to a large swath of the strategically important South China Sea appeared in the Wall Street Journal Asia and then in the Wall Street Journal. As China projects its power in the broader Asia-Pacific region and in the Indian Ocean, the development of India’s military capabilities will affect American interests in the region. In June, AEI hosted an event on India’s military modernization efforts and the shifting balance of power there.

Leon Aron and Nicholas Eberstadt focus on Russia, with Mr. Aron addressing political, economic, and cultural developments in his popular Russian Outlooks. Mr. Eberstadt studies Russia’s rapid population decline and high mortality rates, the subject of his 2010 book Russia’s Peacetime Demographic Crisis.

Michael Auslin, who writes a biweekly column for the Wall Street Journal Asia, received the Sixth Annual Nakasone Yasuhiro Award (named for the...
former prime minister), which recognizes outstanding achievements of the younger generation. His Japanese Business Roundtable program helps the Japanese business community in Washington foster ties and become more familiar with Washington policy debates.

The core defense budget is now significantly below what is needed to recapitalize the armed forces. In April, AEI’s Center for Defense Studies (CDS) released Lessons for a Long War: How America Can Win on New Battlefields, edited by Messrs. Kagan and Donnelly. The book addresses these needs and includes commentary from scholars and practitioners, including Brigadier General H. R. McMaster, an adviser to General Petraeus. The book has been circulating among the highest ranks of the military.

Last fall, the CDS team conducted a series of workshops in anticipation of the Pentagon’s Quadrennial Defense Review (QDR) and reached out to congressional staff on their conclusions following the release of the Pentagon’s own report in February 2010. Mr. Donnelly was asked to serve on Congress’s independent QDR review panel. The panel’s report, released in July, reflected themes of AEI’s work, especially the increasing shortfalls in U.S. defense resources. Secretary Gates’s office asked Mr. Donnelly for his input on these matters.

In October, AEI held the first event of its new Defending Defense Project, which brings together AEI, the Heritage Foundation, and the Foreign Policy Initiative to promote a sound understanding of the U.S. defense budget and the resources necessary to sustain America’s preeminent military position.

In August, Mr. Schmitt, who heads AEI’s Program on Advanced Strategic Studies, published Safety, Liberty, and Islamist Terrorism: American and European Approaches to Domestic Counterterrorism, an edited AEI Press volume. In the book, prominent security and intelligence experts analyze and compare domestic counterterrorism policies in the United States and Western Europe since 9/11.

John R. Bolton, whose wide-ranging commentary on the foundations and actions of the Obama administration has made him the most visible and articulate of the president’s foreign policy critics, will lead AEI’s efforts to identify and challenge new threats to sovereignty. This spring, he released How Barack Obama Is Endangering Our National Sovereignty.
AEI’s founders understood that building support for American institutions and values would require an ongoing commitment to deepening the public’s understanding of American principles and reaching each new generation. This is the task of the scholars in AEI’s social and political studies group. This year, it started with the publication of Arthur Brooks’s book *The Battle*. Over two decades ago, Ronald Reagan and Margaret Thatcher made the moral case for the free-enterprise system. Brooks is making that case for a new generation today.

Defending and improving our system of representative government has been central to the work of AEI’s Political Corner. Michael Barone, Karlyn Bowman, John C. Fortier, and Norman J. Ornstein provided expert analysis throughout the 2010 campaign, and they analyzed GOP gains at a post-election luncheon at AEI. They followed developments through AEI’s Election Watch, Washington’s longest-running election-analysis program, and outlined challenges for the 112th Congress. Throughout the year, the popular monthly *AEI Political Report* examined attitudes about the president and Congress, the economy, the health care legislation, the Arizona immigration debate, and the tea party movement. Henry Olsen, who joined the Election Watch panel this year, described the unique characteristics of American populism and the tea party movement’s potential in *National Affairs*.

The team introduced a new AEI event series of timely policy programs called Politics Watch with sessions on the following:

- The State of the Union;
- The past, present, and future of the filibuster;
- Urban historian Joel Kotkin’s *The Next Hundred Million: America in 2050* and election-related demographic trends; and
- The results and meaning of the British election.

The AEI-Brookings Election Reform Project monitored election-reform efforts and connected experts around the country through a popular e-newsletter and conferences. Messrs. Ornstein and Fortier also embarked on a new joint project on congressional redistricting. Through the
AEI-Brookings Continuity of Government Commission, they pushed Congress to act to preserve our institutions in the event of a terrorist attack. A new report on succession challenges facing the judiciary followed the commission’s reports on congressional and presidential succession.

In September, the AEI Press published *American Politics, Then & Now*, a collection of essays by James Q. Wilson. Brookings scholar William Galston said Mr. Wilson “never fails to illuminate and provoke.” Mr. Barone received the 2010 Bradley Prize, at a Kennedy Center awards gala, in honor of his achievements.

Newt Gingrich traveled the country, meeting with scores of politicians and policymakers, including British prime minister David Cameron and New York City mayor Michael Bloomberg. The prolific Mr. Gingrich published his twenty-third book, *To Save America: Stopping Obama’s Secular-Socialist Machine*, which stayed on the New York Times bestseller list for weeks. In July, he critiqued the administration’s security and diplomacy policies in a speech to a capacity crowd at AEI that was live-streamed to over one thousand viewers on AEI’s American.com.

For more than two decades, the Bradley Foundation has supported monthly lectures at AEI that have enriched the debate about our institutions and values. A *Washington Post* excerpt of Gerard Alexander’s March lecture, “Do Liberals Know Best? Intellectual Self-Confidence and the Claim to a Monopoly on Knowledge,” produced an outpouring of reaction (more than forty thousand hits on the Post’s website and over three thousand e-mails). In May, as part of the series, Mr. Brooks gave his first lecture on his book *The Battle*. Representative Paul Ryan (R-Wis.) delivered a speech at AEI that used Brooks’s book as a jumping-off point for his “Roadmap for America.” The Bradley Lecture series started its twenty-second season in September with a lecture by the distinguished historian of conservatism George Nash. In a discerning piece on the conservative movement, Steven F. Hayward reviewed Nash’s latest book, along with books by Gregory Schneider and Patrick Allitt, both of whom also lectured in the 2010–11 series.

One of Washington’s highly regarded journalists dubbed the twenty-first century, barely a decade old, “the age of the brain,” noting that neuroscience

### Election 2012

AEI’s Election Watch team has turned its attention to 2012, when Democrats have more than twice the number of seats up as Republicans in the Senate. More Democratic than Republican governors’ seats are at stake, too.

**Seats at stake in the Senate in 2012**
- 21 Democrats
- 10 Republicans
- 2 Independents

**Governors' races in 2012**
- 8 Democrats
- 3 Republicans
advances have implications for policy areas such as education, crime, and counterterrorism. Through a series of seminars on neuroculture, the first of their kind in Washington, Roger Scruton and Sally Satel, M.D., are examining how advances in brain science could transform policy. In the AEI Press volume *The Science on Women and Science*, edited by Christina Hoff Sommers, experts discuss the policy implications of what neuroscientists are learning about the differences in male and female brains. Leon R. Kass, M.D., former chairman of George W. Bush’s President’s Council on Bioethics, received the 2010 Paul Ramsey Award for demonstrating exemplary achievement in the field of bioethics.


In 2009, AEI’s education policy team, headed by Frederick M. Hess, produced *Diplomas and Dropouts*, an explosive AEI report on low graduation rates at many American universities. In 2010, they published *Rising to the Challenge*, a report on dismal Hispanic graduation rates. Both reports attracted significant attention. Mr. Hess’s popular Future of American Education working groups brought together education researchers and reformers such as D.C.’s former crusading superintendent Michelle Rhee. The fifty education leaders who participated focused on reducing regulation to foster educational innovation. Mr. Hess’s popular blog, Straight Up, appears on the website of the premier education journal *Education Week*.

Educating the next generation is a vital part of AEI’s activity, and several new projects reach out to young people. AEI’s Values and Capitalism Project seeks to engage them on the relationship between values and the free-enterprise system. In October, the project sponsored a debate between Mr. Brooks and the Reverend Jim Wallis, an evangelical activist at Wheaton College in Illinois. In June, AEI launched its Summer Institute, a program to identify and develop the next generation of leaders who share AEI’s commitment to free enterprise, classical liberalism, and a strong national defense. The 2010 class included a Fulbright scholar, an aide to one of the U.S. generals in Iraq, and the lead Justice Department attorney in eight Guantanamo cases.

AEI’s active National Research Initiative supports, publishes, and disseminates research by university-based academics and other intellectuals engaged in the exploration of pressing public policy issues.
In 2010, AEI launched the largest upgrade to its communications capabilities in its history. The goal is simple: to maximize AEI’s scholarship across key constituencies and ensure that the voices of our scholars are well represented in all forms of media.

We have a strong base to build upon. AEI surpassed every other think tank in Washington in congressional testimony; we expect to have appeared before the 111th Congress ninety-five times by year’s end. AEI scholars led other Washington organizations in the number of op-eds they published in the mainstream press. Since the summer, we nearly tripled our presence in social media.

The most obvious changes can be seen within our offices. We created a production environment at AEI. The Wohlstetter Conference Center was upgraded for television. We now have the capability to stream many of our larger events live on our website, doubling or tripling the audience for AEI events at a marginal cost. A newly installed remote studio allows any television network to interview AEI scholars with

Minority Leader John Boehner at AEI

The Reverend Jim Wallis (left) and President Arthur C. Brooks (right) at Wheaton College. Washington Post columnist Michael Gerson moderated the discussion.
the flip of a switch. This innovation saves time for busy scholars and network producers. We constructed an additional conference room combined with a television studio for smaller events. AEI hired its first producer-editor and installed an editing suite. The Institute’s new production environment ensures that videotaped events and interviews can be widely distributed on the Internet and shared on AEI.org, resulting in more media exposure.

Other changes are happening out of public view. AEI upgraded its e-mail delivery system to provide accurate and actionable data on our e-mail products. Our e-mail lists are becoming more robust and targeted. We have streamlined our communications division, added aggressive media-monitoring components, and refined our processes to promote the work of AEI scholars.

In the year ahead, we will turn our attention to upgrading our website and related products, including AEI apps for mobile devices. We expect our communications capabilities to grow in proportion to our commitment to disseminating AEI’s extraordinary scholarship.
Outreach

The preceding pages testify to the excellence of the research programs at AEI. But in today's policy world, it is no longer enough to produce the best scholarship, the top policy analysis, and the most innovative ideas. We must also ensure that the quality of our scholars' work is matched by its impact.

This year, AEI sought to increase its effectiveness by ramping up its outreach to key audiences. These included members of the policymaking community, business executives, and the nation’s top journalists and opinion leaders. We also reached out to academics, concerned citizens, and students and other young people across the country.

Our outreach efforts involved traditional outlets as well as newer dissemination methods, all of which aimed to communicate more effectively with AEI’s core constituencies and new and growing audiences. In short, our outreach focused on getting AEI research into the hands of those best able to use it.

We made significant advances in both outreach and communications this year, and we will build on these accomplishments in 2011 and beyond.

Informing policymakers. As of press time, our scholars testified ninety-four times before the 111th Congress—approximately 50 percent more often than any other think tank. They also served on important federal commissions and conducted dozens of policy briefings with government officials from various federal agencies.

Hosting first-rate and well-attended conferences and seminars. Our scholars organized more than two hundred public events, addressing the full range of public policy issues. These included keynote addresses by political leaders like Treasury Secretary Timothy F. Geithner and Representatives John Boehner (R-Ohio) and Paul Ryan (R-Wis.). Such events often attracted more than 150 attendees, with rising numbers around the country watching the live-streamed events on American.com or the rebroadcasts on C-SPAN. We reached other, outside-the-Beltway audiences and communities by taking the AEI message on the road and organizing regional events.

Increasing use of scholar conference calls. These calls allowed us to communicate on short notice
with decision makers and leaders from business, government, and the media. On August 30, for example, Vincent R. Reinhart held a morning call on key economic indicators and past approaches to financial crises, and Thomas Donnelly, Frederick W. Kagan, and Michael Rubin held an afternoon call on the withdrawal of combat troops from Iraq.

**Contributing more to the opinion pages of the nation’s top newspapers.** In the first three quarters of this year, our scholars published ninety-five op-eds in the Wall Street Journal, the Washington Post, and the New York Times. This is an increase from the same period last year.

**Publishing pathbreaking books.** Institute scholars and the AEI Press released twenty-six books and monographs in the first three quarters of 2010. These publications have addressed everything from the effects of labor taxes on labor supply to immigration in an era of globalization, and ranged from a history of the Federal Reserve to an economic history of the two Koreas. This summer, three AEI authors had books on Amazon’s top fifty nonfiction bestseller list: *Nomad: From Islam to America; A Personal Journey through the Clash of Civilizations*, by Ayaan Hirsi Ali; *To Save America: Stopping Obama’s Secular-Socialist Machine*, by Newt Gingrich; and *The Battle: How the Fight Between Free Enterprise and Big Government Will Shape America’s Future*, by Arthur C. Brooks.

**Bolstering our online presence.** In 2010, American.com received nearly a quarter million visitors per month, and our Enterprise Blog had about eighty thousand visitors per month. We supplemented these online outlets with video offerings, including live-streaming the September and October installments of AEI Election Watch. AEI’s social-media presence is also on the rise, and our Facebook followers now number more than twenty thousand. We will continue to build a robust online community as a way for AEI to connect with the twenty- and thirty-something audience.

**Creating the free-enterprise leaders of tomorrow.** We began cultivating the best and brightest young minds through our AEI Summer Institute, which launched this June with an inaugural class of 25 drawn from a highly qualified applicant pool of 125. We also reached out to students with the first in our series of “Common Sense Concept” monographs (on the morality of the free-enterprise system, financial cycles and human prosperity, and environmentalism). AEI’s internship program, recognized each year as one of the best in the country, attracted 1,400 applicants from top universities in 2010. Only 119 were selected.

**Expanding our communications team.** This year, we added a number of important positions to the AEI ranks that allowed us to step up our outreach efforts significantly. Kathryn Kross, our new communications executive, is a former bureau chief for CNN and, most recently, Bloomberg Television in Washington, D.C. We also hired a new director of government relations, John Cusey.

**Partnering with like-minded organizations.** Collaborating with institutions that share AEI’s freedom agenda enhanced our outreach and impact. This year, we fostered relationships with such organizations as the National Chamber Foundation, the Acton Institute, the Aspen Institute, the State Policy Network, and several university-based programs.

"Dollar for dollar, AEI is one of the soundest investments that any private philanthropist, foundation, or business firm can make. AEI’s extraordinary team of scholars are intellectually fearless and nonpartisan. Their pathbreaking work has a remarkable impact on policy debates in Washington and far beyond."

—ROGER HERTOG, AEI Trustee
AEI’s mission is to defend freedom, opportunity, and enterprise in the United States and around the world. For the past seventy years, AEI scholars and researchers have been at the center of debates with countless bestselling books and insightful articles, thousands of conferences and seminars, and near-daily media interviews to ensure that America’s entrepreneurial culture is preserved.

Day in and day out, AEI scholars contribute to the national debates on the most pressing policy issues facing the country. They also ensure that Washington keeps its focus on the important matters on the horizon—the issues that have the potential to cause major challenges five, ten, and fifteen years from now.

This important work—described in detail in the preceding pages of this report—would not be possible without your support. AEI depends on the generosity of a community of individuals, foundations, and corporations that shares our values and supports our work financially. These generous annual contributions—ranging from less than $100 to more than $1 million—provide financial stability and truly make AEI’s work a reality.

Join our community. We invite you to join this community by supporting AEI’s research with a donation in the coming year. Your support will help the Institute:

- Continue its efforts to promote freedom, increase opportunity, and strengthen free enterprise;
- Produce books, articles, op-eds, public conferences, and seminars that put freedom’s enemies on the defensive;
- Address core research questions and policy problems in economics, social and political studies, and foreign and defense policy; and
- Ensure that the results of this research are communicated to a broad and diverse audience of national and state-based policymakers, journalists, business executives, academics, and concerned citizens.

How to support AEI. Contributions can be made in the form of cash, securities, stock, matching gifts, or bequests. They can be designated for the Institute as a whole, as well as for our individual scholars, programs, and projects. AEI’s development staff is eager to speak with you about your donation—please feel free to call us at 202.862.5834 or e-mail development@aei.org.

AEI is a public charity under section 501(c)(3) of the Internal Revenue Code; donations receive maximum tax benefits. For additional information on joining our community or to give online, please visit www.aei.org/support.

AEI in Afghanistan

I’ve been in Afghanistan for one hundred days this year and plan to return for another forty-five. In military lingo, I and two AEI interns are civilian “directed telescopes” helping General Petraeus to gain a more detailed and accurate understanding of what is going on in the Afghan theater. We receive no salary from the government. The uniquely independent civilian role we have been able to play is made possible by AEI. This remarkable institution is supporting us in this endeavor because it is the right thing to do. It is a privilege to be part of AEI.

—Frederick W. Kagan

Resident Scholar and Director of the AEI Critical Threats Project Frederick W. Kagan
The AEI financial information reported below is provided in accordance with GAAP accounting conventions in the same format as previous years. This year, there are two significant exclusions from the figures that require explanation.

First, GAAP requires that the net present value of multi-year commitments be recognized in the year the pledges are made, even though some of those funds may be received in the future. Last year, AEI received roughly $20 million in revenue that represents forward commitments; this is excluded from current operating revenue. Second, AEI incurred substantial investment gains totaling $8 million—also excluded from the reported revenue.

Excluding these adjustments, the Institute raised $10.8 million from individuals, $12.2 million from foundations, and $4.4 million from corporations. The sum of these fundraising activities, along with sales, brought the Institute’s annual revenues to $28.8 million.

AEI is grateful to all who invested in the Institute’s present and future ability to translate learning and ideas into innovative solutions to our most difficult public policy problems.

AEI is committed to transparent accounting of the resources it receives. In addition to required tax filings, a copy of the Institute’s audited financial statement is available upon request.
AEI is a community of scholars and supporters committed to expanding liberty, increasing individual opportunity, and strengthening free enterprise. AEI pursues these unchanging ideals through independent thinking, open debate, reasoned argument, and the highest standards of fact-based research. Without regard for politics or prevailing fashion, we dedicate our work to a more prosperous, safer, and more democratic nation and world.

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Victoria Andrew, Laura Drinkwine, Jennifer Morretta, and Christy Robinson edited and produced this Annual Report. AEI thanks them for their work. Cover image © Getty Images/Richard Laird.