The American Enterprise Institute 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.

Located in Washington, DC, AEI is one of America’s oldest and most influential think tanks. Its nearly sixty full-time scholars are leaders in their fields. In their research, writings, conferences, and government testimony, they stress empiricism over opinion, fact over folly, and reason over rhetoric. AEI is a 501(c)(3) nonprofit organization and is supported primarily by donations from individuals, corporations, and foundations. Gifts to AEI are fully tax-deductible. For more information about AEI, visit our website, www.aei.org.
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As we write this message, the American Enterprise Institute, the Heritage Foundation, and CNN have just successfully hosted the November 22 Republican Presidential Candidate Debate. This is a significant event for AEI and comes at the end of a highly successful year for the Institute and on the heels of a series of important public events at AEI.

This year, House Budget Committee chairman Paul Ryan rolled out the Republican House Budget at an AEI event entitled “The Case for Real Security and a Path to Prosperity.” Rep. Kevin Brady outlined for an AEI audience how Congress can control runaway spending. And Robert Gates came to AEI to give one of his last speeches as US secretary of defense. Other important addresses were made by New Jersey governor Chris Christie, Indiana governor Mitch Daniels, Sen. Joseph Lieberman (I-Conn.), Sen. John McCain (R-Ariz.), Sen. Orrin Hatch (R-Utah), former vice president Dick Cheney, and others.

In addition to hosting events featuring the most influential thinkers and leaders in America, we have deepened our ties to the AEI community across the country. Our National Council now comprises more than sixty leaders from the worlds of commerce and philanthropy, and the new AEI Enterprise Club is attracting members from among the nation’s next generation of business leaders. Our regional forums allow scholars to engage with AEI supporters and concerned citizens nationwide, and our campus events are now reaching thousands of college students at more than twenty campuses across the country. Another important focus has been closer collaboration with other policy organizations in areas of shared interest, and this year we hired AEI’s first-ever Director of Coalitions to drive this process forward. Our World Forum at Sea Island, Georgia, gathers strength each year as we convene many of the world’s most distinguished business leaders, statesmen, and scholars for intense, focused, off-the-record discussions.

AEI is ramping up its efforts on many fronts. But we know that, day in and day out, the bedrock of the Institute continues to be its scholarship. The following report provides highlights of that scholarship, including a new “In Their Own Words” section, in which several of our scholars talk about their work. Each provides an invaluable insight into the world of AEI. But in truth, we could ask any of our scholars about their recent work and get the same result—a keen perspective on how AEI impacts not only the daily fights in Washington, but also the longer trend lines in our nation and culture.

As the threats to American liberties mount, the need for our scholars to effectively disseminate and communicate their work rises accordingly. Our scholars are collaborating closely with our marketing department to reach key audiences on the vital issues facing the nation. Through lawmaker briefings, public conferences, media appearances, op-eds in the nation’s leading newspapers, and more, AEI’s scholars are fully engaged in the policy battles.

We all know that 2012 will be a pivotal year for the future of America’s free enterprise system. But at AEI, we also know that policy reform and national renewal never happen overnight, or with one election. They take years of commitment and hard work, always adhering to the principles of freedom, opportunity, and enterprise. That means searching for truth, not political victory—something AEI has been doing from its earliest days.

Only the backing of the AEI community—the patriots who understand the vision of America’s Founders and are dedicated to sharing it with people all around the world—makes our work possible. That work is an expression of our common values and our desire to leave a better world behind us, a shared legacy for the good of our children and our grandchildren.

Kevin B. Rollins
Chairman

Arthur C. Brooks
President
AEI’s scholars are providing policymakers, business leaders, journalists, and interested individuals throughout the world with arguments that can win the fight for free enterprise. They offer the latest facts, best research, and most cutting-edge analysis on issues of immediate importance and those farther over the horizon. The following chronology provides examples over the past year of how AEI scholars are moving the needle on America’s most important challenges. Their vital work is only made possible through the steadfast moral and financial support of AEI’s community of friends and donors.
The situation in southern Afghanistan is fundamentally different from what it was at the start of 2010.

**January**

The Financial Crisis Inquiry Commission releases its report on the causes of the financial markets crisis.

Chinese President Hu Jintao travels to Washington to meet with President Obama.

Scott Gottlieb, MD, writes a bevy of op-eds, explaining how new federal mandates that block adjustments to Medicaid spending are bursting state budgets, exacerbating already high unemployment, and undermining patient care. His Wall Street Journal op-ed “Medicaid Is Worse Than No Coverage at All” is the seventh most emailed article on WSJ.com that day and draws widespread attention in the media.

Financial Crisis Inquiry Commission member Peter J. Wallison publishes his dissent from the majority report, in which he highlights the report’s weaknesses in addressing the role of government policy in the years leading up to the crisis. Widely disseminated on Capitol Hill, his dissent draws media interest, earning him interviews on NPR, the BBC, Fox Business, and C-SPAN Radio.

Frederick W. Kagan releases his coauthored report “Defining Success in Afghanistan,” which describes what success would look like and why the current approach can succeed. Mr. Kagan unveils the report at an AEI event featuring, among others, retired four-star general Jack Keane and Andrew Exum, a former adviser to General Stanley A. McChrystal in Afghanistan. He also holds a briefing on the report on Capitol Hill with more than fifty congressional staffers.

Thirty-three governors sign a letter to the White House and Congress seeking relief from provisions in the new health care law.

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On February 16, Governor Chris Christie addresses a packed AEI audience on the reform ideas that would serve as the foundation for his New Jersey budget address. News crews from all the major networks fill the room, as well as print reporters from dozens of major outlets. Excerpts from the speech are viewed 75,000 times on AEI's increasingly robust YouTube page.

One of the options put forward by the White House is very similar to a proposal by AEI’s Peter J. Wallison, Alex J. Pollock, and Edward J. Pinto. Their white paper, “Taking the Government Out of Housing Finance,” outlines ways to end the government-sponsored enterprises Fannie Mae and Freddie Mac and receives a great deal of attention in Congress and the White House.

Bill Gates endorses Stretching the School Dollar, a book coedited by AEI’s director of education policy studies, Frederick M. Hess. The book addresses the simultaneous pressures to reduce costs and increase student achievement. Mr. Gates’s comments underscore AEI’s ability to convene the country’s top education scholars, consultants, journalists, and entrepreneurs to advance the debate on school reform.
An 8.9 magnitude earthquake—the worst in its recorded history—hits Japan, unleashing a tsunami and triggering a nuclear emergency.

The new Republican majority in the US House of Representatives explores options for budget reform.

March

The Patient Protection and Affordable Care Act marks its one-year anniversary.

The Obama administration discusses the need for civics education in America’s schools.

US Secretary of Education Arne Duncan cites AEI’s citizenship survey in the report “High Schools, Civics, and Citizenship: What Social Studies Teachers Think and Do,” which finds that 70 percent of teachers believe that social studies classes are a low priority because of pressure to show progress on statewide math and language arts tests. This survey is part of AEI’s broader citizenship initiative, directed by Gary J. Schmitt.

Thomas P. Miller’s coauthored book Why ObamaCare Is Wrong for America is published on the one-year anniversary of the Patient Protection and Affordable Care Act’s passage and released at an AEI-sponsored Capitol Hill event, which attracts one hundred attendees, including Rep. Tom Price (R-Ga.) and Sen. John Barrasso (R-Wyo.). The book, which examines the health care bill from every angle, garners a number of media mentions and interviews.

At an AEI retreat for new members of Congress, Andrew G. Biggs addresses more than thirty members on the topic of “Understanding the National Debt.” In April, Mr. Biggs testifies before the House Committee on Oversight and Government Reform on challenges facing state governments, including pension liabilities, public-sector pay, and investment practices.

Michael Auslin writes numerous op-eds about the Japan earthquake and tsunami that are published in the popular press and responds to television and radio interview requests from top-rated programs. A few weeks later, he organizes an AEI event to examine the long-term strategic implications of the disaster.

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April

International Mother Earth Day is celebrated around the globe on April 22.

May

John Yoo and Marc A. Thiessen discuss the importance of CIA interrogation techniques in Osama bin Laden’s killing with former attorney general Michael B. Mukasey and others at an AEI event. AEI’s Critical Threats team produces nine analysis pieces, six of which are published on the day of the al Qaeda founder’s death. Frederick W. Kagan testifies on the “Terrorist Threat to the US Homeland Emanating from Pakistan.”

Just days before Congress averts a federal government shutdown, Rep. Paul Ryan (R-Wis.) delivers remarks at AEI on US fiscal and economic challenges and the principles underlying the Republican budget. The address is live-streamed on AEI.org; carried live on C-SPAN and Fox News; and covered by camera crews from CBS, NBC, Reuters, CNN, and Bloomberg TV.


Governor Mitch Daniels gives a major address at AEI about Indiana’s reform efforts, further establishing AEI’s education program as the premier convener of debate and discussion on education reform. Earlier that same morning, another distinguished policymaker, Sen. Marco Rubio (R-Fla.), addresses an AEI audience on a range of issues.

Indiana Governor Mitch Daniels at AEI
Robert Gates delivers one of his last Washington addresses as secretary of defense at an AEI event in which he lays out his vision for a US military that can meet contemporary challenges in an age of austerity. The speech is followed by a Center for Defense Studies panel.

The White House and key Democratic leaders in Congress introduce the Medicare Drug Savings Act of 2011.

The latest US economic data suggest growth has moderated considerably while inflation is picking up, and fears of stagflation, not seen since the 1970s, are renewed.

Frederick W. Kagan and Katherine Zimmerman of the Critical Threats Project host a strategic exercise to explore possible scenarios for the future of Yemen. The results are presented in an AEI panel discussion with the former US ambassador to Yemen Edmund J. Hull. AEI's Critical Threats team begins releasing regular updates, educational videos, and conflict maps on the situation in Yemen.

Joseph Antos and Guy King, the former chief actuary for Medicare, release an AEI white paper, “Tampering with Medicare Part D Will Not Solve Our Fiscal Crisis.” The paper challenges the administration’s plan to change the Medicare prescription drug program.

Kevin A. Hassett makes the case for fiscal restraint in testimony before the Joint Economic Committee. Later, in a widely praised August 2 Wall Street Journal op-ed, he warns of the dangers of the government’s Keynesian policy responses.
General David Petraeus presents Frederick W. Kagan and Kimberly Kagan with the Distinguished Public Service Award, the highest honorary public service award the chairman of the Joint Chiefs of Staff can give. In his remarks, General Petraeus thanks the Kagans for their extraordinary and vital contribution in helping turn around the war in Afghanistan. The Kagans spent much of 2010 and 2011 in Afghanistan “to help research and analysis teams within the ISAF headquarters develop a comprehensive civil-military campaign plan.”

Congress engages in a bitter debate over a debt-limit deal to avert a possible default on the government’s obligations.

August

The House Agriculture Committee begins its work to draft a new farm bill prior to the law’s expiration at the end of the year.

The Syrian military escalates its offensive to crush a nationwide revolt.

AEI launches a major new project, “American Boondoggle: Fixing the 2012 Farm Bill,” a series of papers written by agriculture scholars, in anticipation of the bill’s 2012 reauthorization, exploring inefficient, costly, and outdated agriculture policies. AEI holds a weeklong series of events on Capitol Hill, which garners attention from more than three hundred Hill staffers, journalists, academics, and industry representatives.

The Wall Street Journal publishes Arthur Brooks’s op-ed, “The Debt Ceiling and the Pursuit of Happiness,” which makes the moral argument for steering our country toward its free enterprise roots. The following morning, it is cited by Sen. Jon Kyl (R-Ariz.) on the Senate floor and also appears on numerous top-rated radio and television spots.

Danielle Pletka continues her criticism of the Obama administration’s response and policy of indifference to the violence in Syria through a number of blog posts, while AEI’s Critical Threats team tracks Syrian protests.
August 2011 marks the twentieth anniversary of the fall of the Soviet Union.

The Federal Reserve holds its annual symposium in Jackson Hole, Wyoming.

Congress debates whether to extend the Bush tax cuts.

Kevin A. Hassett and Alan D. Viard coauthor a Wall Street Journal op-ed demonstrating that increasing the top tax rates will hamper the business investment upon which our country’s prosperity depends. Later in the month, Mr. Viard and Alex Brill address the impact of raising marginal rates on incentives and economic growth in their AEI Tax Policy Outlook. Members of Congress disseminate the articles to their colleagues and seek the authors’ insight and advice.

Foreign Policy publishes Leon Aron’s essay “Everything You Think You Know about the Collapse of the Soviet Union Is Wrong” as its cover story. Mr. Aron argues that today’s events in Egypt, Libya, Tunisia, and Syria are morally charged revolts that resemble Russia’s 1991 revolution in both motives and objectives. The essay is translated and reprinted by the recently banned Iranian reformist magazine Sharvand Emrooz.

Vincent R. Reinhart—who presented his coauthored paper “After the Fall” at last year’s Federal Reserve Jackson Hole Symposium—releases an AEI Economic Outlook in anticipation of this year’s meeting, in which he discusses how that paper predicted the current painful deleveraging cycle and excessive regulation that slows growth. A few days after the symposium, Mr. Reinhart, John H. Makin, and Kevin A. Hassett hold a conference call with business leaders and journalists to discuss Chairman Ben Bernanke’s speech at Jackson Hole and the minutes from the recent Federal Open Market Committee meeting.
President Obama delivers his jobs speech to the nation.

The new congressional bipartisan “super committee,” tasked with finding a way out of the US debt crisis, meets for the first time.


AEI’s Center for Defense Studies (CDS), directed by Thomas Donnelly, holds a Capitol Hill event on defense spending with more than two hundred attendees, including six members of Congress. In a joint project launched last year with the Heritage Foundation and the Foreign Policy Initiative, AEI’s CDS team has been promoting a sound understanding of the US defense budget and the resource requirements necessary to sustain America’s preeminent military position in a dangerous world.

America marks the ten-year anniversary of the 9/11 attacks.

Alan D. Viard is in high demand for his response to President Obama’s speech and his comments on the “Buffett Rule.” The Wall Street Journal and the New York Times’s “Room for Debate” invite him to write pieces, and among his many interviews are a Bloomberg/Washington Post YouTube video and an NPR interview. Three weeks before the speech, Kevin A. Hassett appears three mornings in a row on Fox and Friends to discuss President Obama’s ideas to improve the economy.

John R. Bolton, in New York for the United Nations (UN) General Assembly meeting, appears, is mentioned, or is quoted on the Palestinian statehood question in at least seventy-five different media outlets. Ali Alfoneh is quoted about Iranian president Mahmoud Ahmadinejad’s visit to the UN, and National Review Online’s “The Corner” reprints AEI’s Iran Tracker in its entirety. Michael Rubin discusses the Palestinian UN vote on Bill Bennett’s Morning in America.

John Yoo discusses the aftermath of the attacks and his new edited volume, Confronting Terror.

Former Vice President Richard B. Cheney at AEI
Anwar al-Awlaki, the Yemeni-American cleric who was a propagandist for aspiring jihadists around the globe, is killed.

The World Economic Forum’s Summit on the Global Agenda holds its annual meeting in Abu Dhabi, United Arab Emirates.

Nicholas Eberstadt, who serves on the World Economic Forum Global Agenda Council on Population Growth, is among the global experts from eighty countries brought together for the Summit. Mr. Eberstadt publishes a major piece in the New York Times’s “Room for Debate” explaining how the world’s population profile is experiencing a growing march toward subreplacement fertility and what that means for various countries’ social life, economic performance, and global position.

AEI’s Critical Threats team writes a series of blog posts about the killing of American Anwar al-Awlaki, explaining that it is an important step, but the conditions that have made Yemen an al Qaeda safe haven must also be addressed. Danielle Pletka moderates a conference call for reporters discussing the implications of the killing, and the Critical Threats team posts a video on AEI’s YouTube channel that garners nearly 1,500 views, offering background on Anwar al-Awlaki.

The United States accuses Iran of planning to detonate an explosive device to kill the Saudi Arabian ambassador.

AEI scholars Ali Alfoneh, Danielle Pletka, and Michael Rubin respond immediately to news of the plot with articles, interviews, and blog posts calling for Iran to be held responsible and a change in policy within the US administration. Mr. Rubin states that this should end any notion that deterrence or containment can work against the Islamic Republic. He highlights the costs of dialogue and diplomacy with Iran, Libya, Syria, and other rogue states in a forthcoming book.
The “Occupy Wall Street” movement spreads to more than one hundred cities across the United States.

The Senate introduces a bill to reauthorize the Elementary and Secondary Education Act, which could significantly reduce the federal government’s role in education.

US Republicans probe a $535 million federal loan guarantee to bankrupt Solyndra.

Muammar Qadhafi is killed in Sirte, Libya.

Peter J. Wallison explains in a Wall Street Journal article that the “Occupy Wall Street” movement springs from the same false narrative about the causes of the financial crisis that exculpated the government and resulted in the Dodd-Frank Act. Andrew G. Biggs reminds us that the biggest investors in hedge funds are public-sector employee pensions—that is, retirement plans benefiting many of the very people who are protesting against Wall Street.

Steven F. Hayward writes an article published in the Weekly Standard about the spectacular collapse of Solyndra, and how it is one among several recent green energy failures that make clear the massive subsidies green energy requires to survive.

AEI co-hosts an event on Capitol Hill with more than eighty congressional staffers to discuss the role of federal accountability in education. Sen. Michael Bennet (D-Colo.) provides opening remarks. Frederick M. Hess is invited to offer his views on the bill during a series of private meetings with committee staff members and answers a steady stream of calls from key Hill staffers and education reporters seeking his comments on the bill.

Muammar Qadhafi is killed in Sirte, Libya. The same day, Danielle Pletka is interviewed by USA Today, answering readers’ questions on Libya, and Michael Rubin is interviewed by National Review Online. AEI scholars blog throughout the day, updating readers on the situation, and Reza Jan, Critical Threats Project Analyst, is interviewed by Fox 5 News in DC on Qadhafi’s final moments.
AEI, in partnership with CNN and the Heritage Foundation, hosts a Republican Presidential Candidate Debate dedicated solely to foreign policy and national security. It is held in Washington, DC, and aired nationally on CNN and CNN en Español, and worldwide on CNN International, CNN Radio, and CNN.com.

Foreign policy issues are not the focus of the Republican presidential candidate debates thus far.

Election season is in full force with pundits and citizens alike debating who will win the Republican nomination.

AEI hosts regional forums with its scholars in cities from coast to coast. The Institute’s events in New York City, Chicago, Dallas, Jacksonville, and Los Angeles feature more than a dozen AEI scholars to discuss the 2012 election and public policy landscape. AEI’s political and public opinion studies scholars Michael Barone, Karlyn Bowman, and Norman J. Ornstein respond to a daily flow of calls from policymakers and journalists asking for their insights, predictions, and assessments of the state of public opinion on a range of specific topics. Mr. Ornstein’s vital work on the “Continuity of Government” gains media attention and wide exposure.
Every day, AEI scholars’ analysis appears in the world’s most prestigious publications; is heard on radio and television networks across the globe; and is relied upon by policymakers, business leaders, and journalists seeking a fuller understanding of the subject at hand. The following is a selection of personal reflections from AEI scholars on some of the most important policy issues of our time.
There were, of course, several major obstacles. The Obama administration, based on its past actions, did not seem at all inclined to support the privatization of a government function—very much the contrary—and there were media reports that a “consensus” was developing in Washington that if there were to be a reform of the housing finance system in the United States, it would include a continuing government role. This was a particularly bad sign, since Washington is populated by people who earn their living by reading, propagating, and abiding by whatever consensus has come into vogue. Sure enough, by late 2010, at least a dozen proposals had emerged from organizations like the Financial Services Roundtable, the Mortgage Bankers Association, and realtors and homebuilders, all proposing government-backed housing finance systems. Liberal organizations like the Center for American Progress chimed in with their own government-based plan for a housing finance system of the future. Shortly after the election, the Obama administration announced that it would release its own plan early in 2011, and almost no one thought it would be any different from what the various special interests were already putting out. The only question was which of these ideas the administration would adopt.

In this environment, my AEI colleagues Alex J. Pollock and Edward J. Pinto and I decided that our best course was to lay out the policy rationale for a fully
private housing finance system before the administration acted—a preemptive strike that would at least show Republicans and conservatives what a private system would look like before the administration’s plan was crowned by the media as the only likely outcome. Accordingly, in mid-January 2011 we published a preliminary white paper that outlined the four principles for a viable housing finance market dominated by the private sector:

1. **The government should have no significant role.** In outlining the reasons for adopting this principle, we noted that the government never gets paid for the risks it takes—the political system does not permit it—and thus in the end the taxpayers always have to bail out the government’s losses.

2. **Securitization should be based on a quality mortgage.** Securitization is necessary as a supplement to bank financing for mortgages. However, as shown by the period before the financial crisis, it fosters the creation of housing bubbles and a gradual deterioration in mortgage quality. Accordingly, mortgages sold as mortgage-backed securities (MBS) should be subject to certain minimum quality standards established by law.

3. **There is a sound policy role for the government providing assistance to low-income families,** but this assistance must be limited in size, visible in the budget, and restricted so it is available solely to low-income families.

4. **Elimination or privatization of the GSEs.** When these principles are in place, Fannie and Freddie can be gradually eliminated or privatized over five years by reducing the size of the mortgages they are allowed to acquire.

Our white paper was labeled “preliminary” because we intended to reissue it after the administration’s plan was released, criticizing the specifics of the administration’s plan on the basis of arguments in our initial draft. The most significant section of our initial effort was our indictment of any government-backed housing finance proposal as a potential disaster for taxpayers, and we hoped these points would assist congressional Republicans in their response to the administration’s approach when it was made public.

This is not how things worked out. Shortly after the publication and dissemination of our white paper, we began to hear that various members of the Obama administration were taking its arguments seriously. Members of the press who had been speaking with administration officials told us that they had been advised to read our white paper because it had been influential in the shaping of the administration’s plan. We could not quite fathom this, since it seemed wildly implausible that the administration would adopt a purely private structure as its long-awaited proposal. Not only would this enrage the Left and disappoint the housing-government complex, but it would also run counter to the consensus in Washington, which was already primed to support the kind of government-backed system it assumed the administration would unveil.

I was surprised and delighted by what the administration had done.

They had certainly not supported our idea, but they had not opposed it either.
The answer came on February 11 at a Brookings Institution conference on the future of housing finance. I was a speaker there, as was Treasury Secretary Timothy Geithner, who used the occasion to outline the administration’s plan, released that morning. I read the memorandum quickly and found that the administration had not made any single proposal. Instead, they had outlined three options—a purely private system, not unlike ours; a private system supplemented by a government backup in case of a catastrophic collapse of the housing market; and a wholly government-backed system not unlike some of those that had already been proposed by various Washington associations and housing interests. Their memorandum outlined both the advantages and drawbacks of each structure, so the administration was not committed to any of the three ideas.

I was surprised and delighted by what the administration had done. They had certainly not supported our idea, but they had not opposed it either. Importantly, by suggesting that they might be open to a private system, the administration had broken up the Washington consensus, leaving room for an agreement with the Republicans in Congress. When I ran into Secretary Geithner at the conference, I told him how pleased I was with the proposal, to which he responded, “Well, please don’t tell anyone!” He could imagine the grief he would get from the progressive caucus.

In effect, as my colleagues and I saw it, the administration had made an offer to the Republicans: solve the problems that we see with a purely private system, and we could have an agreement. This caused us to change our strategy and the final draft of the white paper. Instead of a document designed to bolster the arguments against a government-backed system, we rewrote it as a response to the administration’s concerns about a private market. The four principles were the same as in the initial draft, but the revised document emphasized where we agreed with the administration on the benefits of a private system and contained a great deal of new detail on how we would address—in a private housing finance market—the various drawbacks that the administration had seen in a private system. In our view, despite (or perhaps because of) the generally poisonous atmosphere in Washington, both the administration and the Republicans in Congress had political interests in coming to an agreement; both might want to show—before the 2012 elections—that they could work together to produce a practical result.

To advance this idea, we circulated the revised version of our white paper and held meetings both with key Republicans in Congress concerned with housing policy and with some of the president’s housing advisers; these included senior officials at Treasury and the Department of Housing and Urban Development and various members of the White House staff. We outlined both the substantive and political advantages of our plan. From these meetings, it was clear to us that there were no show-stoppers in our proposal. The questions from administration officials were practical and reflected the fact that they had read and understood the structure we had advanced.

The administration’s support, if it could be obtained, was a key ingredient for reform. The Republicans in Congress were under great pressure from the housing industry to support a government-backed plan. They would not want to vote against these traditional allies unless they were sure that legislation would pass the Democratic-controlled Senate and be signed by the president. The only way this could happen is with the administration’s support. Without it, whatever the House passed would not even be brought up for debate in the Senate. In addition, the Republicans themselves were not unanimous. There were some Republicans who had been supporters of Fannie and Freddie, and they continued to be sympathetic to the arguments of the homebuilders and realtors, as well as the largest banks. Legislation to eliminate or privatize Fannie and Freddie could be voted out of the House Financial Services Committee, but the vote would be very close if all the Democrats, as expected, opposed it. A defeat would end the reform process in this Congress.

Even more important, the housing market is in a bad way. Private investors have not returned to the nongovernment MBS market, and the GSEs and Federal Housing Administration are together the only substantial buyers in the market, currently acquiring approximately 90 percent of all mortgages. Housing
prices are continuing to fall, many more foreclosures are expected, and sales of both new and existing homes are at historically low levels. In these circumstances, even conservative Republicans in Congress are unwilling to adopt a plan for eliminating or privatizing Fannie and Freddie until they are sure that the private market would step in to take their place. This is a classic Catch-22. The private market will not revive while Fannie and Freddie are operating—no one can compete with the government—but there is a reluctance in Congress to make any change in the housing finance system unless they can be certain that it will not harm the fragile market that exists.

The solution to this problem is to find large institutional investors—insurance companies, pension funds, and investment advisers with large fixed income portfolios under management—who would be willing to tell Congress that they would buy MBS if Fannie and Freddie were eliminated or privatized. At first glance, this does not seem difficult; institutional investors had traditionally been major buyers in the mortgage market, but our research showed that they had largely drifted away. They were not buying MBS backed by the GSEs—probably because the yields were too low—and they were not buying privately issued MBS because the quality was poor and the risks were too great. It seemed possible that they would be willing to return to the market if we could show them that they could earn a good return on MBS backed by mortgages of good quality. For this purpose, we added private mortgage insurance to our plan. This would give institutional investors some assurance that private capital would take losses before they would, and (to protect themselves) mortgage insurers would do the mortgage underwriting that institutional investors were not generally equipped to do.

One way to get the ball rolling is for Congress to adopt our plan solely for the so-called jumbo market—mortgages larger than those the GSEs are allowed to buy. This would avoid controversy about the government’s role, since the government is not in the jumbo market anyway. Also, this market is currently moribund, so few would object to trying something new. If our plan attracts private investors, that will prove its value and provide a basis for privatizing or eliminating Fannie and Freddie. Thus far, as this is written in late 2011, the administration has not moved one way or the other, and it could be that no decisions will be made as the president enters the election year. That means no real effort to eliminate Fannie and Freddie until 2013—if then.

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Reflecting on the Financial Crisis: New York and Washington Perspectives
John H. Makin

For the past twenty years, I have worn two hats. I have worked in New York City as the chief strategist at the hedge fund Caxton while maintaining my affiliation with the American Enterprise Institute as a visiting scholar, the author of the Institute’s monthly Economic Outlook, and a regular panelist at AEI conferences. As the financial crisis unfolded in 2007 and 2008, I was based in New York with frequent trips back to Washington. Watching the crisis unfold and Washington respond was a fascinating and somewhat horrifying experience. It was as if the world had conspired to conduct all sorts of laboratory experiments on the relationship between the workings of the financial system and the economy and what policymakers ought to do in response to the extraordinary events that were unfolding.

To refresh my memory, I decided to look over the Economic Outlooks I wrote during 2007 and 2008 to see what those events taught me about monetary and fiscal policymaking in Washington. Needless to say, the cascading crisis and the response to it were hardly a textbook case. Reading over my Outlooks, I am struck by how unevenly the events unfolded and by how humbling the experience was for people in my business and in government. Since that time, the policy responses to the problems of the financial sector have been mostly ad hoc.

In thinking about the origins of the crisis, it is clear that some remarkably misguided government policies—many of them long chronicled by my AEI colleagues Kevin A. Hassett, Peter J. Wallison, Desmond Lachman, and Allan H. Meltzer, just to name a few—created a housing bubble based on the idea that housing prices do not go down. That assumption created deeply entrenched credit problems that grew from the construction and sale of securities whose intrinsic value was tied to the assumption that housing prices will never fall.

The great irony of the financial crisis is that it was largely caused by bad government policy relating to the housing market and the regulation of banks and that its aftermath has resulted in bad government policy related to housing prices and the regulation of banks. Monetary policy was pushed to extremes never imagined at the beginning or even the middle of the crisis while fiscal policy was applied late and poorly. It is little wonder that over two years after the official start of the postcrisis recovery, growth has been sluggish and the unemployment rate has remained high while housing prices have continued to fall.
The deflation scare in mid-2010 led the Fed to an aggressive expansion of its balance sheet called QE2. Chairman Ben Bernanke hinted at this move in his August 2010 Jackson Hole speech and formally implemented it in November. I was broadly supportive of QE2 as a defensive move to avoid deflation, but I was concerned that the Fed was asked to do too much to sustain what I described in one of the Outlooks as “a tepid postcrisis US economic expansion.”

QE2 prompted a broad outcry of criticism of the Fed, both from economists and leaders of Congress. An open letter to Chairman Bernanke signed by a group of prominent economists and politicians called for its cancellation. A letter from the Republican leadership in Congress to Mr. Bernanke asserted that QE2 is “giving the impression that the Federal Reserve will keep making new and different attempts to boost the short-term prospects for the economy.” That letter was written on November 17, 2010, several weeks before Congress enacted a substantial fiscal stimulus package, including payroll tax cuts, a further extension of unemployment benefits, and incentives to boost capital spending. Presumably, that fiscal stimulus was intended “to boost the short-term prospects for the economy.”

Meanwhile, as I returned to AEI in January, I found myself challenged for supporting QE2, a welcome clash of ideas that I had missed in my more pragmatic New York markets role. I debated Douglas Holtz-Eakin in one of the early American Enterprise Debates on the threats of inflation and deflation. The QE2 discussion and its aftermath illustrated the environment of constructive dialogue at AEI. Colleagues such as Mr. Meltzer and Mr. Hassett expressed strong reservations about QE2, while other colleagues such as Mr. Lachman and Vincent R. Reinhart were more supportive. Our discussions always remained cordial, and we believe they have been helpful to policymakers and others trying to understand the issues surrounding monetary policy and inflation in the aftermath of a financial crisis.

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The issues in economic outcomes since late last year, as it turns out, are contradictory and complex. Inflation has risen so far in 2011, providing support for critics of the Fed’s QE2 policy. But measures of core inflation, the Fed’s primary inflation target, have moved only moderately higher to levels within the stated target ranges of the Fed. Headline inflation, including a rapid increase in energy prices, has risen even more rapidly, and higher energy prices have acted as a tax on consumers that has depressed spending on other goods. The rise in energy prices was exogenous—that is, linked to outside factors related to political unrest in the Middle East and North Africa more than it was tied to QE2.

The remarkable thing about the debate over QE2 is that in mid-2011, six months after it peaked, and in spite of the second fiscal stimulus in December 2010 aimed at boosting consumption, the US economy has slowed rapidly and could drop back into recession. Growth averaged just 0.6 percent at an annual rate during the first half of 2011 despite combined monetary and fiscal efforts to boost it, and the biggest contributor to slower growth, especially during the second quarter, was a sharp slowdown in consumption spending. Reflecting this dismaying outcome, my
July 2011 Economic Outlook focused on the limits of monetary and fiscal policy.

The failure of Washington efforts to stimulate the economy coupled with disruptions tied to the contentious July deficit-reduction talks, complete with threats of a default on US government bonds, produced substantial market turbulence. In July, after reports showed a sharp slowdown in the growth of employment and gross domestic product, and with consumer confidence falling, Congress occupied itself with a confidence-sapping debate over admittedly much-needed fiscal consolidation. The addition of a self-imposed requirement to raise the debt ceiling added to the debate talk of a possible US government default on its debt.

When I discussed the debate with New York colleagues, there was widespread incredulity about the default threat because it amounted to a negative sum game. A default, even a short-lived one, would boost borrowing costs to the economy and the government and increase the deficit, thereby frustrating the deficit-cutting goals of those in Congress who were employing the default threat to force larger deficit reduction.

In one of the greatest ironies I have seen in financial markets over the past twenty-five years, the battle over deficit reduction, complete with threats of default and downgrades and coming when the US economy was weakening sharply, combined to produce one of the largest rallies in the US bond market since the financial crisis. Weaker US growth numbers pushed up US bonds, rallying even in the face of default threats. When the threat was lifted, bond yields fell even more sharply to their lowest level since last summer’s deflation scare. By threatening to default on US debt and tightening US fiscal policy when the economy was slowing rapidly after failed policy efforts to boost growth, Congress managed to set up a bond rally worthy of the real deficit reduction they had hoped to achieve but did not. Washington hardly noticed while New York bought US bonds.

The story does not end here. In early August, just as President Barack Obama was signing the deficit- and debt-reduction bill, stories were going out on the wires on what the president could do to stimulate the economy. Among those measures was an extension of the payroll tax cut enacted in December 2010. The tepid 0.6 percent growth rate during the first half of the year suggests that such measures were not highly effective. This, coupled with the fact that a payroll tax cut would add a little over $100 billion to the budget deficit, seemed to have little impact on the president’s thinking about how the debt and deficit impasse had come about in the first place.

What about monetary policy following the debt-ceiling battle and earlier intense criticism of QE2? As the US economy slowed abruptly during July, the Fed’s June discussion of hopes for a second-half pickup and how at some future date it would gradually remove monetary accommodation (that is, tighten slowly) disappeared to be replaced in August by hints of what the Fed could do to further ease monetary policy—a prospect quickly dubbed QE3. As it turns out, talk of the need for further Fed easing has cropped up in August in four of the last five years: 2007, 2008, 2010, and 2011. All of this happened in an economic recovery that is supposed to have begun in mid-2009. And in all of those years, even after the Fed had moved its interest rate target virtually to zero in 2009, the Fed pursued further quantitative easing measures (that is, asset purchases).

So now for the meaning this discussion carries for my move from New York to Washington. What impresses me from rereading my 2007–2010 Economic Outlooks are the themes that just keep coming back. First, the New York me is far more sensitive to the interaction between financial markets and the real economy than most Washington insiders are. Watching the Sunday talk shows’ coverage of financial and economic events is disconcerting. Listening to some members of Congress display their ignorance of the meaning of systemic risk is, too. It may feel good to have voted against the Troubled Asset Relief Program or against a measure to raise the debt ceiling the day before a default, especially when the measure carries and provides a free pass to members who vote no. But I wonder how many members really understand the meaning of a total financial collapse or substantially higher borrowing costs for their constituents. I have come back to AEI permanently now, and my colleagues and I will continue to make that case.

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When she finally saw her doctor on Wednesday, Susan was by now noticeably ill. He sent her straight to the crowded emergency room of a nearby suburban hospital. Once Susan arrived at the hospital, she got into the queue. More than fifteen hours later, she was finally admitted. Total time from the onset of her symptoms to her first dose of medicine: about one hundred hours.

Susan was diagnosed with a serious case of pneumonia. In the end, she was fine. The bacteria that infected her lungs were fairly routine. Unfortunately, so was her chaotic course through the American health care system. That trip violated much of what we know about delivering good medical care.

It was not just the delayed visit to her doctor or her long wait in the ER that was wrong. Susan’s infection was diagnosed dangerously late. The initial cultures of her blood—to isolate the bug that was infecting her lungs—were done sloppily in the busy ER and became contaminated. A culture of the mucous she was coughing up should have been sent to the lab on her admission. It was not done until the second day of her hospital stay. The antibiotics that were started should have been dosed immediately when she arrived in the ER. They were delayed for eight hours.

This is modern medical care at its primordial core. It is something that I as a doctor see more often than I would like to admit. For all of our advanced equipment and modern drugs, the actual delivery of medical care remains a messy, often inefficient endeavor. This bodes poorly for our long-term challenges when it comes to financially strained programs like Medicare and Medicaid. Under the new health care legislation passed by President Barack Obama, it is likely to get worse still.

As AEI resident fellow Thomas P. Miller puts it, one of the principal ways we are going to solve our fiscal challenges when it comes to programs like Medicare and Medicaid is to improve productivity in our health care sector. We must “make sure we’re getting more quality and value and better clinical outcomes for each marginal health care dollar that we spend,” Mr. Miller argues. Susan’s grimly ordinary case shows we have a long way to go when it comes to a
Ultimately our health care challenges and the policy debate over how to fix them boil down to whether government is the solution to our difficulties, or the cause of them... system where providers compete to deliver value and improved outcomes.

President Obama’s plan to change the health care system, the Patient Protection and Affordable Care Act (ACA), has many shortcomings. But its principal flaw is its subordination of entrepreneurship and innovation in how health care is delivered to a preference for central planning. The ACA relies on government agencies to improve the efficiency of medical care. This includes a new agency, the Center for Medicare and Medicaid, which is charged with refashioning how medical care is organized and paid for. It also includes an autonomous board, the Independent Payment Advisory Board, whose mission is to cap the rate of growth in Medicare spending by placing controls on prices for medical products and giving Medicare’s bureaucrats the authority to control access to medical services.

The principal vision of the Obama plan is the creation of “integrated delivery systems.” These would require doctors to consolidate their services into large, government-regulated entities. Under the Obama plan’s version of this concept, physicians would become salaried employees of these new entities.

Another core piece of the Obama health plan is payment reforms that will give doctors a lump sum of money for taking care of groups of patients. Doctors can keep some of the money that is left over. The Obama team has said that this arrangement will give physicians a financial incentive to economize. These concepts are referred to as “medical homes” and “accountable care organizations” (ACOs) in the Obama plan, but they are just dressed up forms of capitation—a financial concept adopted by health maintenance organizations in the 1990s and panned by some doctors and consumers because it gave physicians incentives to ration care.

The ACOs will become an impediment to innovation rather than the vehicle for new efficiencies because the knotty regulations that have been put in place to implement them have chased away many entrepreneurs, along with their private capital. The entities consolidating doctors to form these ACOs are largely hospitals, but hospitals have historically been some of the least innovative operators in the health care marketplace.

It is wishful thinking on the part of the Obama team that once doctors are consolidated into “integrated” networks, the ACO will put in place systems that will lead to better coordination of medical care and new efficiencies. But market power alone (and the creation of local health care monopolies) does not foster innovation.

AEI scholar Joseph Antos says these provisions, and the federal engineering of a new health care delivery model, will not bend the cost curve. This year, Medicare is expected to spend $568 billion. In ten years, spending will reach almost $1 trillion.

The ACA also will not increase people’s choices. In an article published in AEI’s online magazine, The American, Mr. Antos notes that the law’s reliance on central planning extends beyond managing how the health care industry is organized and into people’s actual medical options. The new health care law does not give everyone the same menu of insurance options, Mr. Antos writes. “Many people will have no new insurance options.”

...whether people are better off exercising their own decisions... whether these decisions are too complex for most people, and need to be made by “experts” working for government agencies.
President Obama’s health care legislation expanded the current system, with all its warts. In many ways, it made that system more centrally planned and uneconomical. The plan’s most significant contribution to health care may be how clearly it framed the debate over what is at stake, and how diverging ideology about consumer choice, entrepreneurship, and innovation can affect the policy outcome.

Mr. Antos says the legislation will lock many people into their employer-based coverage. It will also burden consumers and taxpayers with the need to finance a costly menu of politically fashionable mandated medical benefits. Many of these mandated benefits—items as diverse as contraception and colonoscopies—may be services people do not want, do not need, or would agree to pay out of pocket.

Writing recently in the *Journal of Policy Analysis and Management*, Mr. Antos says that we have a system-wide problem when it comes to health care. Many woes exist precisely as a result of Medicare, rather than in spite of the program. That means if we expect to solve our problems, we have to start with Medicare.

“The program sets the pace for the rest of the system through its myriad regulations, instructions, and other guidance, which have tremendous influence on how health care is delivered in this country,” Mr. Antos writes. “Although Medicare has considerable leverage over the health system, that does not mean Medicare’s rules will produce exactly what policymakers have in mind,” he writes. “Information about the program’s operation is incomplete and slow to arrive. Even if the information was comprehensive and could be analyzed in a timely manner—an unrealistic expectation now and in the future—neither the experts nor Congress can accurately anticipate how patients, providers, and plans will react to a change in policy.”

The long-term solution that Messrs. Antos and Miller have been championing in their analysis and writings is a model based on “premium support.” This system would convert existing defined benefit promises into “defined contributions.” Individuals and their families could then use these contributions to enroll in coverage arrangements of their choice. This approach would reverse the incentives that now exist in programs such as Medicare, Medicaid, and tax-subsidized private insurance that promote wasteful spending. The idea has had longstanding support from a group of leading scholars and forms the basis of the reform platform being advanced by House Republicans.

As part of the American Enterprise Institute project “Beyond Repeal and Replace: Ideas for Real Health Reform,” Mr. Miller and coauthor James C. Capretta recommend that Medicare subsidies should no longer hide the true cost of promised benefits but provide beneficiaries incentives to obtain the most value for them. They find that a move to replace both traditional Medicaid and Medicare assistance and the tax preference for employer-sponsored insurance with defined contribution payments would open up new possibilities for explicit and beneficial coordination between public programs and the coverage offered to working-age Americans.

In the new book *Why ObamaCare Is Wrong for America*, Mr. Miller argues that placing limits on what is provided through defined contribution payments, even with special provisions for additional help to low-income households, will set in motion a competitive dynamic for health care services that will yield benefits across the entire system.

Of course, improvements in how health care services are organized are only one part of the equation. We also need to continue to produce innovations in medical products if we are going to improve outcomes.
and tackle disease. That starts with making sure we have the right incentives for entrepreneurs. It means a well-functioning patent system that rewards intellectual property. It means a reimbursement system that appropriately values innovation. And it means sound regulation that does not create unnecessary obstacles to safe and effective products.

When it comes to regulation, in recent years, the Food and Drug Administration (FDA) has created new hurdles to medical products, even those targeting unmet medical needs. It has backed away from many of the provisions put in place more than a decade ago to accelerate the development of and access to effective products aimed at advanced and often fatal diseases, such as late-stage cancers.

Writing on the Wall Street Journal’s editorial page this year, I noted that of seventy-six cancer drugs approved since 2005, the FDA gave only thirteen “accelerated approval”—a designation created to expedite drug development. From 2001 to 2003, 78 percent of the novel cancer drugs approved were granted accelerated approval. Since then, only 32 percent got the designation. “What’s more,” I wrote, “the clinical trial requirements that the FDA is imposing on cancer drugs with accelerated approval are now as burdensome as the requirements imposed on regular drugs. So, practically speaking, having ‘accelerated approval’ doesn’t mean anything.”

The net result was that “Europeans are now approving novel drugs an average of three months more rapidly than we do. Of 82 novel drugs that were submitted for approval in both the United States and Europe between 2006 to 2009, eleven were approved only in Europe. One is for relapsed ovarian cancer, another for bone cancer.”

The FDA’s new rules and practices aimed at medical devices have been particularly vexing, with noticeable consequences. Between 2004 and 2010, more than half of all innovative devices were first approved in Europe. When devices launch in Europe, manufacturing must also move overseas. That is because many emerging-market countries have enacted “country-of-origin” rules. These laws require a marketed device to be made in the country where it received regulatory approval. Companies know they will get European approval long before they get the FDA’s nod. So if they want to market their devices in these emerging markets, they need to make sure manufacturing facilities are also located in the European Union.

As a result, between 1998 and 2009, the US trade surplus in medical devices has been cut by over half, from $6.6 billion to $3 billion, even though total trade in medical devices has more than tripled over the same period.

Next year, Congress is going to reauthorize a program that funds much of the FDA’s operations. This will give policymakers an opportunity to incorporate into the FDA’s practices new rules aimed at lowering the hurdles to products that provide genuine advances against troubling diseases.

Ultimately, our health care challenges and the policy debate over how to fix them boil down to whether government is the solution to our difficulties, or the cause of them; whether people are better off exercising their own decisions when it comes to the health care services they need, even if that means they are exposed to some of the costs of those decisions; or whether these decisions are too complex for most people, and need to be made by “experts” working for government agencies. The Obama health plan sees government offering many of the solutions.

President Obama’s health care legislation expanded the current system, with all its warts. In many ways, it made the system more centrally planned and uneconomical. The plan’s most significant contribution to health care may be how clearly it framed the debate over what is at stake, and how diverging ideology about consumer choice, entrepreneurship, and innovation can affect the policy outcome.

The central debate over reforming how health care is delivered is now underway. It may take another election or two to decide its outcome.

Susan was fortunate despite getting her treatment in a system that does not compete to produce higher-value care and superior outcomes. She suffered longer than she should have, but in the end, she was no worse off for her ordeal. Her pneumonia resolved quickly once she got the right antibiotics. Not every patient is so lucky.

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Challenging the Status Quo: Rethinking Education Policy
Frederick M. Hess

As an academic, I work with smart people who have excelled in school their entire lives. In that company, I have the peculiar advantage of having grown up as a mediocre student and a comfortable suburban kid who was far more concerned with watching Charlie’s Angels reruns than with passing chemistry. I have always thought that this experience has given me a well-grounded and unsentimental view of teaching and schooling.

As a college junior, spurred by the need to cover the cost of pizza and textbooks, I started substitute teaching in the local public schools. Somewhat to my surprise, I found it a terrific way to spend a day. Upon graduation, I headed off to one of the country’s citadels of teacher training, the Harvard University Graduate School of Education. There, I received a Master of Education degree in teaching and curriculum, while presumably learning something about teaching high school social studies (though what that was beyond the magical allure of “diversity” has not always been entirely clear). The whole experience left me skeptical about the value of even acclaimed teacher preparation programs.

Trying to get a jump on the job hunt, that January I mailed 120-odd letters of inquiry to school districts across the country. I assumed my materials would attract some intimations of interest, even in a tough job market. Boy, was I wrong. I did not hear a peep. I did not receive a single acknowledgment, not even a rejection. I could have thrown the letters in a sack, set them afire, and tossed them off Boston’s Tobin Bridge to the exact same effect. What I did not know was that even reform-minded districts were tossing pretty much every inquiry into the trash until late spring or early summer because they did not get serious about hiring until after the passage of the local teacher contract’s mandatory date for teachers to announce their retirement. So much for strategic talent hunting.

In fall 1990, I found myself in East Baton Rouge Parish, Louisiana, teaching social studies at a magnet high school. During my time in Baton Rouge, and in all my time since, I do not believe I have seen anyone in schooling with a sinister agenda or unconcerned with the welfare of kids. What I did see in Baton Rouge was an organization (filled with typical people—some well-meaning, some hard working, most just trying to juggle multiple obligations and responsibilities) that did not seek out talent, reward performance, address mediocrity, or have any clear sense of purpose. At the time, I thought this unusual. After two decades, I have come to view this as a design feature of the twentieth century American school system.

I loved the teaching, the subject matter, devising lesson plans, crafting simulations, and devising
assessments. I was tickled by the realization that I was introducing kids to Churchill and Adam Smith, Kurt Vonnegut and market theory, or the subtleties of the First Amendment. Explaining, poking, arguing, coaching Quiz Bowl and debate and soccer—these things were a joy. And mixing it up, day in and day out, with 150 teenagers a year was extraordinary fun.

What I did not love was the bureaucracy. Recruited to start an Advanced Placement economics class, which would have been the third such program in the state, I stumbled through a Kafkaesque series of obstacles including my temporary summer assignment to another school, administrative reticence to tinker with the school schedule in order to free up a class period, an inability to come up with two hundred bucks to buy a used set of introductory economics texts, and so much more. My willingness to take on an extra class and preparation produced headaches, rather than hosannas. Such experiences were the norm, not the exception.

I often suspect I would still be happily ensconced in my classroom if I believed that excellence would be rewarded and had I felt I was part of an organization that valued initiative. Instead, I decided to go somewhere and try to figure out how so many well-intentioned people could create such a morass. I returned to Harvard to pursue a doctorate in political science, while setting out to better understand schooling and the challenges of school reform. My scholarship acquired a very personal motivation even as I parted ways with many of my colleagues interested in education reform. Where most focused on packaging favored instructional or assessment practices, I found myself asking what kinds of policies and systems would nurture initiative, reward competence, and welcome creative problem-solving.

My dissertation, which examined school reform in fifty-seven districts, became my first book. Titled *Spinning Wheels*, it attracted some notice for its then-controversial contention that the problem with most reform was less the particular schemes than the incoherence and lack of discipline that characterized everything these districts did.

My experience with *Spinning Wheels* was instructive, and it made clear that my concerns about education policy were as applicable to academe as to the classroom. I had shared the manuscript with three respected publishers. The three, Teachers College Press, Harvard University Press, and the Brookings Institution, all sent it out for review. Brookings sent it to policy and political science professors, the others to education professors. The Brookings reviews were broadly positive, leading Brookings to publish the volume in 1998. It did well and gave a happy boost to my nascent career as a junior professor in the school of education at the University of Virginia.

This is not the interesting part of the story. The intriguing part was the response from the six education professors who reviewed the manuscript for the other presses. Unanimously, they declared the manuscript to be uninteresting, unimportant, mean-spirited, and undeserving of publication. They thought my characterization of popular reforms, like bloc scheduling and site-based management, was uncharitable. They thought my interpretation of the institutional politics was callous, unduly harsh, and devoid of any new insights.

I soon became accustomed to this kind of reaction from my colleagues in education. In 2001, I wrote a white paper for the Progressive Policy Institute titled “Tear Down This Wall.” A critique and call for a dramatic overhaul of teacher licensure, the piece was touted by then–Secretary of Education Rod Paige and made me into a nontrivial presence in the debate over who should be allowed to teach. At the National Press Club launch event, the president of the American...
Association of Colleges for Teacher Education declared that my arguments qualified not even as “old wine in new bottles” but just “old wine in old bottles.” He suggested that the University of Virginia really ought to consider whether, given my skepticism about teacher education, I deserved to be employed at its school of education.

A year later, in 2002, when then–AEI president Christopher DeMuth kindly invited me to move to the American Enterprise Institute, many of my education school colleagues enthusiastically ushered me to the door. Happily, I finally found myself somewhere where I felt free to pursue the questions I deem important, to rove widely, and to challenge conventional assumptions without facing social opprobrium. I could finally tackle issues like school choice and merit pay not as an apologist or an opponent, but as a thinker exploring questions of market-based reform and incentives with the cool confidence that accompanies an appointment at AEI—perhaps the country’s epicenter of thought on these issues.

The longer I have been in this field, the more it has become apparent to me that we ask educators to operate in an anachronistic system that smothers initiative and frustrates competence. Unfortunately, “reformers” often seem to imagine that harnessing this power is a matter of identifying a few charismatic superstars and then lionizing, mimicking, and throwing resources at them. In the end, both reformers and defenders of the status quo sink into debates about inspirational personalities, boutique programs, and feel-good reforms—with little attention to what it would take to upend the established order.

It is not a popular view, but I have come to believe that our greatest problem is not a failure to care enough; it is the reverse. It is our inclination to allow good intentions (or proclamations of good intentions) to excuse lazy thinking, willful naiveté, and a refusal to make tough choices. We allow the mantra of “best practices,” vapid assertions of our love for kids, the search for consensus, or simplistic fixes to stand in for tough thinking or critical analysis.

The consequence? We get a “school choice” community that advocates charter schooling or school vouchers while showing remarkably little interest in what it takes for markets to work, or for “choice” to yield good choices. We get teacher quality advocates who skip past the fact that the huge well of natural talent that fueled teaching until the 1970s (women with few career alternatives) has dried up. Consequently, they focus on tweaking preparation, or linking cash bonuses to test score bumps, rather than rethinking how K–12 schooling might attract, use, train, and reward talent.

We get technology enthusiasts who talk excitedly about their toys but remain uninterested in or naive about the professional, contractual, and institutional barriers that hinder the import of those advances. We get a research community intent on determining whether merit pay or mayoral control “work,” notwithstanding the fact that no researcher has ever been able to prove whether it is a good idea to pay good employees...
more than bad employees—or whether it is better to appoint or elect judges or utility commissioners.

All this said, my experiences and the resulting biases have given a distinct shape to the AEI education program that can be glimpsed in the work we have tackled this year. This spring, I published *Customized Schooling* (along with my colleague Bruno Manno, senior advisor with the Walton Family Foundation), a volume that challenges us to push past the verities of school choice and school turnarounds and to embrace new opportunities to use technology, markets, and entrepreneurial solutions to move past batch-process solutions. This fall, I penned the *National Affairs* essay “Our Achievement Gap Mania,” in which I argued that the relentless group-think emphasis of the past decade on closing achievement gaps has stifled excellence, retarded creative problem solving, and undermined the political support for reform. My colleague Andrew Kelly published *Reinventing Higher Education*, an exploration of how we might rethink colleges and universities with an eye to cost, quality, and accountability. And we hosted major research conferences exploring topics that included what we have learned about what the federal government is ill-suited to do when it comes to school improvement and what we know about the state of citizenship and civics education. Guest speakers have included Indiana governor Mitch Daniels, Los Angeles mayor Antonio Villaraigosa, and KIPP cofounder Mike Feinberg.

As I reflect on our approach, three unconventional tenets deserve special note. First, schools ought to be regarded as more than black boxes. Far too often, would-be reformers seem to think of schools less as vital institutions than as convenient tools for pursuing “social justice.” Reformers approach school improvement as social engineers insistent that schools produce the outcomes that job-training programs, urban redevelopment, income support, and a slew of other well-intentioned government programs have failed to deliver. The result has been a mechanistic notion of schooling indebted to Frederick Taylor, the father of “scientific management,” for its fascination with studying reading scores, math scores, and graduation rates to identify “best practices” in everything from teacher pay to principal preparation. The AEI education program proceeds from the simple premise that schooling itself is important; that there are no shortcuts; and that, if we do it well, other benefits will accrue.

Second, today’s would-be reformers often imply that schools can be simply and readily “fixed,” if they can just settle on the right legislation and federal policies. They are too sure of themselves to contemplate that there may not be big “solutions” when it comes to schooling, but that there may be many smart and sensible ways to educate students, and that the best results will be produced not by activists and policy-makers but by energized educators and entrepreneurs. Thus, the AEI education program starts from the bias that the key challenge for policy is to make it easier for dynamic problem-solvers to thrive, and that it is crucial to keep in check the impulse to smother those efforts with well-intentioned prescription.

Third, this kind of rethinking and reinvention is necessarily broad. If the only problems we are solving involve boosting math and reading test scores, then those are the only problems we will solve. I firmly believe that educational excellence is about citizenship as well as computation, and about remarkable higher education as well as graduating students from schools and colleges.

A final thought that goes to the quick of our role. Impassioned do-gooders are an invaluable corrective in most walks of life. In schooling, however, I have long worried that we have a curious malady—a dearth of skepticism coupled with a surfeit of good intentions and big plans. The result is a shortage of observers willing to deliver some bitter medicine to educators, apologists, and would-be reformers gorged on saccharine sentiment. For better or worse, I have always found myself well-suited to be the guy with the castor oil.

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As we interact with our peers on Capitol Hill and in the executive branch, we also try to reach broader audiences, especially young people. The American Enterprise Institute is doing more work on college campuses, and we have expanded the internship program. The intern program is among the most competitive in the country, and this summer, we participated in AEI’s first-ever Summer Institute designed especially for interns. AEI president Arthur C. Brooks and Kevin A. Hassett taught a course on microeconomics, and we followed with a seminar on national security. Part of our course included an educational tool we have used successfully in the past for senior people in and outside of government. We took a group of interns to Gettysburg for a staff ride.

Since the late 1800s, military officers have learned leadership lessons by participating in staff rides. These training exercises for the German General Staff during Otto von Bismarck’s time were later adopted by the US Army to train its officers. In some respects, a staff ride resembles a business school case study, but one that is conducted on site and confronts the most acute leadership challenge faced by any organization: combat. Staff rides take place on battlefields but are not guided tours. After substantial reading in the weeks before a trip, each participant gives a short talk at a key point on the battlefield, playing the role of one of the main figures in the battle. His or her colleagues then ask questions about that individual’s view of what took place.

The goal of a staff ride is to explore enduring questions from the ground up: Why did one side succeed and another fail? How do the large issues of war and peace get translated into minute decisions on a battlefield? What command relationships are most effective? What sort of discretion does a commander need to give a subordinate for him to succeed in his task? What limits should loyalty impose on dissent against the chief’s policies? How is a common sense of mission created? How can a senior leader make use of a competent but overzealous and headstrong

Educating the Next Generation
Thomas Donnelly and Gary J. Schmitt

Like most think-tank scholars, we spend much of our time doing research, publishing books, writing articles, appearing on radio and TV, and talking to members of Congress and senior administration officials—all in an effort to push forward our policy recommendations to the public and key policymakers. This has been a particularly urgent task in recent months as the administration and Congress contemplate additional severe cuts in defense spending with potentially dire consequences in terms of lost American power, influence, and security.
subordinate? Why do some leaders seem able to exploit opportunity and others not?

Participants in staff rides often walk away with the thought that what they believed was a pretty straightforward understanding of how a particular battle was fought and why it was won is far more dependent on the interplay of personalities, decisions of the moment, geography, organizations, and high and low politics. There is nothing like walking in another man’s shoes to understand the complexities of leadership and what leads to success or failure. As such, the staff ride is really not so much a history lesson—although, typically, a lot of history is learned—but a lesson in how to begin to think about these matters.

On a blisteringly hot day in late June, our merry band of twenty-five summer interns headed off early in the morning by bus to Gettysburg National Military Park, a relatively short, ninety-minute ride from Washington, DC. There, from 9:00 a.m. until 6:00 p.m., we bused and walked our way around the battlefield—working our way through the three days of conflict and hearing about and debating the key decisions made on both sides during the conflict. Was General Robert E. Lee’s strategy sound? What were the alternatives? Were they realistic? Where was the intelligence Lee needed? Had Lee’s reorganization of his Confederate army been thought through? What allowed the Union forces under new commander General George Meade—forces hitherto routinely routed by the Army of Northern Virginia—to succeed at this decisive moment in the war? What role did discretionary orders play in the success of the Union effort and in the defeat of the Confederates? Which commanders made the most of their orders, and why? What role did President Abraham Lincoln play in this success? How did the battle change the course of the war?

We ended the staff ride with a “march” from the Confederate line on Seminary Ridge up to the Union line on Cemetery Hill, treading the very same ground made famous by Pickett’s Charge on the last day of the battle, July 3. And once we reached Cemetery Hill—sometimes referred to as the “high-water mark of the Confederacy” because of the success of Pickett’s forces in actually breaching, if only momentarily, the Union forces’ line—we looked back over the field we had walked, considered the incredible valor it took to make that charge and the massive casualties that resulted on both sides, and asked the most fundamental question: what could move men to want to fight and die in such huge numbers not only at Gettysburg but throughout the war? And as we pondered that question, we read Lincoln’s Gettysburg Address, given only a few months later by the president at the dedication of the battlefield as a national cemetery, and reflected on his final injunction that day.

It is rather for us to be here dedicated to the great task remaining before us—that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion—that we here highly resolve that these dead shall not have died in vain—that this nation, under God, shall have a new birth of freedom—and that government of the people, by the people, for the people, shall not perish from the earth.
Thus, the final question is not about how the battle was fought, or why, in the sense of direct causation, but how it is remembered, how it still shapes the ways Americans think about war, power, and politics.

By the time we climbed back on the bus and headed back to DC, the Summer Institute students were tired and sunburned. But the debate about various aspects of the battle or the war continued all the way back into Washington. There is no question in our minds that they walked away from the day having learned not only a lot more about this central battle in the country’s history, but also just how that history is shaped by contingencies, not the least of which involve human elements of judgment, valor, and decisiveness—and their opposites.

Like the staff ride, a “war game” or “crisis simulation” is designed to examine a situation from the ground up. We have held three at AEI’s World Forums, where we have looked at scenarios involving loose nukes in Pakistan, an Iran on the verge of gaining nuclear weapons capability, and a succession crisis in North Korea. The war games allow those unfamiliar with our field a brief and deadly serious peek at the issues we are most concerned about.

Why war games? The first answer is that a strategy, whether it be a grand strategy or simply a political-military strategy for a given region or country, must withstand the test of being implemented under a set of likely circumstances. What might look perfectly reasonable on paper can look far less so when put under the constraints of time, resources, institutional capabilities (or lack thereof), domestic politics, and the personalities of key decision-makers. Although nothing can duplicate the pressures of real-life crisis management or war planning, asking individuals to play the role of, say, the chairman of the Joint Chiefs of Staff, the leader of another country, or the head of the secret service of an ally can generate new insights into one’s strategy—be they flaws to be corrected or strengths to be built on.

War games bring to the fore unseen requirements in terms of capabilities, different ways to assess the right mix of military forces, and the potential (or not) of new technologies to change how force is actually employed. Often, existing plans and strategies make perfect sense. But plans and strategies do in fact have shelf lives and require updating and renewed examination if they are to be successful in new circumstances.

Perhaps surprisingly, some of the most valuable war games take place in unclassified fora that a think tank like AEI can run. We have learned many lessons from putting these crisis scenarios together and working through them with colleagues from other think tanks, current and former civilian and military officials, and participants from allied countries. We have been able to use these two tools to expand our outreach not only to the professionals in our field but also, through the staff ride, to a new generation of potential scholars and policymakers.

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In Their Own Words

The Real Majority was one of the first efforts to marry Census and attitudinal data to understand America, and it inspired a generation of political writers. Our colleague Michael Barone began his own deep dive into Census data in the 1950s. Mr. Barone describes his joy when the Barone family’s 1951 edition of the World Book Encyclopedia arrived with the new 1950 Census results. Since 1972, his biennial volumes of the Almanac of American Politics have shown how our politics are intimately connected to demographic change.

Putting his knowledge to good use, Mr. Barone participated in one of AEI’s new American Enterprise Debates in August titled “An Emerging Democratic Majority?” His opponent was Ruy Teixeira of the Center for American Progress. Mr. Teixeira, with coauthor John Judis, wrote a book in 2002 called The Emerging Democratic Majority. In the debate, Mr. Barone challenged their thesis that professionals, women, and minorities, all of whom are becoming larger and more powerful parts of the electorate, will constitute a new majority. At the debate, which was held on Capitol Hill and televised live by C-SPAN, Mr. Barone responded, “I take a skeptical view of emerging majorities [because] I think that changes in demographics are unlikely to achieve the magnitude necessary to give one party a natural majority and consign the other to minority status over a period of time. . . . Demographic changes aren’t enough to do it.”

But Mr. Barone and the other politics watchers at AEI, Norman J. Ornstein and Henry Olsen, are paying close attention to demographic changes for clues to possible election outcomes. In May, the Census Bureau

Surveying the Election 2012 Landscape
Karlyn Bowman

Senior White House strategist David Plouffe said a while ago that all of President Barack Obama’s campaign messages should be directed to a middle-aged white woman in Ohio. For those of us at the American Enterprise Institute, this message has a familiar ring. In 1970, our colleagues emeritus scholar Ben J. Wattenberg and the late Richard Scammon wrote a best-selling book called The Real Majority. Messrs. Wattenberg and Scammon described the typical voter in the 1968 election as a “forty-seven-year-old wife of a machinist living in suburban Dayton.” She was middle-aged, middle-income, and from the middle of the country, and understanding her views, Wattenberg and Scammon believed, was the key to electoral success. The “Dayton housewife” became so famous when the book was published that the producers of the popular late-night television show The Dick Cavett Show sent a team of producers to find someone like her and had her appear on the show.
Mr. Barone and the other politics watchers at AEI, Norman J. Ornstein and Henry Olsen, are paying close attention to demographic changes for clues to possible election outcomes.

completed its release of the demographic profiles of all fifty states, enabling AEI’s political team to pore over fresh data on the country’s age, sex, and racial profile in preparation for the 2012 election. Three of the big stories from the Census will have significant political ramifications. One is the aging of the US population. Second, from almost every angle, the 2010 Census data show that the country’s racial and ethnic transformation is proceeding faster than expected. Finally, the Census tells us about geographic change as the country’s population continues to move south and west.

The new Census tells us that the forty-five- to sixty-four-year-old age group, the baby boomers, grew faster than any other age group in the population—31.5 percent from 2000 to 2010. In seven states, the median age of the population is now over forty. Older Americans turn out to vote in higher numbers than younger Americans, and there is evidence in the polls that they are becoming more conservative over time. As yet, however, they have not fully embraced the Republican Party.

In 2010, voters over the age of sixty-five were nearly a quarter of the electorate, and 58 percent of them voted for the Republican House candidates. At the other end of the age spectrum, eighteen- to twenty-nine-year-olds were 11 percent of all voters, and 56 percent of them pulled the proverbial lever for Democrats. In 2008, the youngest voters also leaned heavily toward the Democrats. In the presidential election, they voted in substantial numbers, but so did every other group, so they did not look particularly distinctive. In the 2009 off-year elections and in 2010, the youngest cohort did not turn out in significant numbers, contributing to the decline in Democratic fortunes.

It seems unlikely at this writing that President Obama can cement a generational allegiance of young voters to Democrats. FDR and Ronald Reagan brought many young voters to their parties, and many of them maintained that allegiance as they aged. Like other Americans today, however, young people are unenthusiastic about how President Obama has handled the economy, the central issue thus far in the 2012 campaign.

Another big story of the 2010 Census is the changes in the country’s racial and ethnic makeup. The Census reported that between 2000 and 2010, the country’s Hispanic population “grew by 43 percent, or four times the nation’s 9.7 percent growth rate.” The nation’s 51 million Hispanics are now 16 percent of the population. The Hispanic population grew in every region, particularly in the South. The Asian population also grew by more than 40 percent in the past decade. More than half of the country’s Hispanic population resides in California, Texas, and Florida.

In North Carolina, where the Democrats will hold their 2012 convention, the Hispanic population rose 111 percent over the past decade. They are now 8.4 percent of North Carolina’s population. In Florida, where the GOP will hold theirs, Hispanics represent 23 percent of the population, and Cubans are no longer a majority of the group.

Looking further into the future, almost a quarter of all children in the country are Hispanic, and they are already a majority of children in California and Texas. The 2010 Census, according to Brookings demographer Bill Frey, revealed an absolute decline of white young people over the last decade and a smaller decline among blacks under the age of eighteen. Hispanics and Asians accounted for all the net growth in the under-eighteen age population.

But Hispanics nationally have what Frey calls a “translation problem.” Their political clout does not match their demographic clout—yet. Frey estimates that out of every one hundred whites, seventy-seven are citizens, fifty-six are likely to be registered, and fifty-one turn out to vote. For Hispanics, many of whom are too
young to vote and are not citizens, those numbers look quite different. Frey estimates that forty-two out of every one hundred are likely to be citizens, twenty-five likely to be registered to vote, and twenty-one turn out.

Americans’ changing racial and ethnic profile prompted the demographer Joel Kotkin, who spoke about his new book *The Next Hundred Million: America* in 2050 at an AEI “Politics Watch” event, to say that “demography is the best friend the Democrats have.” But Kotkin also notes geography is on the side of the Republicans. This is the third big story to come out of the Census. The 2010 Census confirmed that our population is continuing to move south and west. Demographer Wendell Cox notes that “in the first Census after WWII, in 1950, the East and the Midwest accounted for 58 percent of the nation’s population and the South made up 42 percent. . . . Today the ratios are nearly reversed, with 60 percent of the population living in the South and West and only 40 percent in the East and Midwest.” The twenty-four fastest-growing states are all in the South and West. Until this Census, California had added more people than any other state in every decade since 1920. But in the new Census, according to Cox, Texas added more people than California did. Texas will probably gain four representatives, while California will not gain a seat for the first time since 1850.

The Census provides what one demographer called a “still portrait” of an ever-changing political landscape. As Election 2012 unfolds, AEI’s political team will continue to analyze Census data, peruse the polls, and monitor the campaigns. AEI’s *Political Report* will use the polls to chart the candidates’ progress and evaluate issues in the campaign. AEI’s Election Watch series, the longest-running election analysis program in Washington, will return in late 2011 providing regular updates on the course of the campaigns. We will be watching that Dayton housewife, just as Ben Wattenberg and Dick Scammon did years ago.

*Karlyn Bowman* is a senior fellow at AEI.
Things have changed a lot in this former Taliban heartland. Two village shops are now open in the former Taliban command center. US forces have helped refurbish Mullah Omar’s mosque and were present with enthusiastic locals at the ribbon-cutting ceremony. As we walked down the dusty road, local children and their parents watched, smiled, and waved. I have been in recently cleared areas before in Iraq and Afghanistan and seen older brothers grab or hit youngsters who got too close to the Americans. I have seen fascinated children peeking timidly out from behind gates at the strange foreigners their parents have told them they must not approach. There was none of that here. One little girl grabbed the hand of a soldier as we walked along and walked with us. An obviously strong and large sergeant who spoke some Pashtu was known to the locals as “the wrestler.” Young boys followed after him, daring each other to wrestle him.

We walked into a compound to meet with the leader of a self-organized local defense group working with both US forces and the local Afghan security forces to retake his village. He had been a young mujahid in the anti-Soviet war and had moved to Kandahar City when the Taliban took over his home. Cosmopolitan but fierce, he had come back to fight with us against the Taliban, even though we could not give him weapons or money because his group was not part of any of the formal processes sanctioned by the Afghan government.

He explained, in an extremely compelling narrative, the evolution of his feelings toward the Taliban. In the mid-1990s, Kandahar was in chaos. There was no order. Local warlords dominated and abused the
people. Sexual crimes—the most heinous to many Afghans—were committed against young girls and boys with impunity. At that time, Mullah Omar and his followers, who were religious students (the meaning of the word *taliban*), banded together to bring order, a return to decency, and due respect to religion to the lawless area. It was right, then, to support them, this former *mujahid* explained. But that Taliban is long gone, he continued. Its leaders are dead or fled to Pakistan, where they have become the leaders of a proxy army for the Inter-Services Intelligence. Local young men who call themselves Taliban are thugs and criminals. They have lost all claim to the respect of the early Taliban. They must be defeated—killed—and order once again restored, he continued. That can happen only with the help of the Americans, who have become the strongest tribe in the area. Over the long term, though, the villages will defend themselves, once we have together defeated our common enemy. Will we stay to see it through this time?

The narrative of American abandonment of Afghanistan is always strong and has become much stronger with the announcements of the withdrawal of large numbers of American forces. In many places, fear of a repetition of the experience of 1989—when the United States lost all interest in Afghanistan following the Soviet withdrawal—leads would-be fighters against the Taliban to sit on the fence and see who is going to win. In Nalgham, our newfound ally had a different perspective. He has already cast his lot with us. If we abandon him this time, the Taliban will kill him and his family. He knows that. He fears it. But he decided to join us anyway, hoping that we will stand with him and his people.

I assured him that Americans have, indeed, learned the lessons of the 1990s and would not again abandon Afghanistan. I told him that we knew the dangers we would face if we allowed the Taliban to return to power in its historic seat and that, even as we spoke, our leadership was negotiating agreements to sustain our support for Afghanistan over the long term. He was, I think, somewhat reassured, but still skeptical. Zharay, he said, is the land of broken promises. Abandoned in 1989, it was cleared once in 2006, but then abandoned to the Taliban again. We will have to show our commitment here for it to be believed this time, but there was hope in his eyes and in the eyes of the children—hope of the kind I saw in Baghdad in 2007 and have seen elsewhere in Iraq, but not often in Afghanistan. It was a remarkable experience in the heartland of the Taliban and a meaningful indication of the progress being made not simply to defeat the Taliban militarily, but also to discredit everything they stand for.

I have been privileged to be a small part of that progress over the last fifteen months, helping three International Security Assistance Force commanders and their staffs to understand the complex challenge that is Afghanistan and to think creatively about how to address it. General David Petraeus described the role I have played as that of “directed telescope”—a concept coined in the early twentieth century to describe individuals, at that time always officers, the commander sent to be his eyes and ears throughout the staff and the battle space. Directed telescopes work on problems the commander needs help with but for which he does not have enough staff power. They are gadflies, empowered to tell the commander directly where they see subordinates deviating from his intent, opportunities that he might not have noticed, or dangers of which he might not be aware. Generals Petraeus, Stanley McChrystal, and John Allen also empowered their directed telescopes to criticize their own ideas, something for which civilian “outsiders” are uniquely suited. It is very difficult for a subordinate to

The narrative of American abandonment of Afghanistan is always strong and has become much stronger with the announcements of the withdrawal of large numbers of American forces.
question, let alone challenge and argue with, a four-star superior. It is easier for civilians who are not beholden to those four-star commanders.

That is why I am so grateful to the American Enterprise Institute for allowing me to perform this role while remaining independent of the command. Commanders have been able to draw on my services without wondering what it was costing them and whether they were getting the real deal, or a version toned down to avoid risking my job. And I have been able to be completely honest at all times, secure in the knowledge that if I decided I could no longer support the mission in good conscience—or if the commander decided I was no longer value-added—I could simply go home to AEI with no one the worse for the exchange. It is rare for any individual to have the kind of security that enables total honesty and candor. It is also rare to find so many senior commanders who value it, even when it leads to disagreements and arguments. I am not alone in having played this kind of role—General Ray Odierno in Iraq and Lieutenant General David Rodriguez in Afghanistan each had military and civilian directed telescopes charged with arguing with them. I have come to see that the willingness, even determination, to keep such gadflies around is one of the hallmarks of the best commanders. But AEI is alone—along with the Institute for the Study of War, which supported the presence of Kim Kagan, my wife, in the same role for the same time—in permitting one of its scholars to serve on detached duty for fifteen months without compensation of any sort to the individual or the institution. It is proof of the organization’s devotion to serving the nation and putting national interests ahead of its own. It is why I am so very proud and humbled to be an AEI scholar.

General David Petraeus described the role I have played as that of “directed telescope”—a concept coined in the early twentieth century. Directed telescopes work on problems the commander needs help with but for which he does not have enough staff power.
The same year, in a speech at the American Enterprise Institute’s annual dinner, President George W. Bush made the case succinctly: “It is presumptuous and insulting to suggest that a whole region of the world—or the one-fifth of humanity that is Muslim—is somehow untouched by the most basic aspirations of life. Human cultures can be vastly different. Yet the human heart desires the same good things, everywhere on Earth. In our desire to be safe from brutal and bullying oppression, human beings are the same. For these fundamental reasons, freedom and democracy will always and everywhere have greater appeal than the slogans of hatred and the tactics of terror.”

The democrats of the Arab world were at the heart of our project; this was not meant to be a group of Washington researchers creating the foundations for a new era of democracy in the Middle East. Rather, the challenge was to find those voices in the region, to encourage them to begin articulating a new blueprint for economic and political freedom, and to empower them with connections to American leaders. The challenge was huge. We needed to find the people, link them together and to policymakers in the West, persuade them of the wisdom of speaking out, and in most cases bring them to Washington. For many, there was risk at every turn.

For some who participated in the project, the costs were high. Speaking out in the repressive environment of the Middle East was an actionable offense; questioning the region’s presidents-for-life meant choosing a different future for themselves and their families. But they did it.

Lokman Slim, a Shia activist and the director of Hayya Bina (a Lebanese civic initiative), wrote on Hezbollah’s authoritarian domination over the Lebanese Shia and its expanding influence in Lebanese political life, which deterred efforts to implement democratic reforms and heightened communalization.
across Lebanese society. He argued that Lebanese reformers must “build up the Lebanese state as an inclusive counter-model to rival the Hezbollah option. The targets of this model should be not only the Shia, but all Lebanese. Steps should be taken to undercut Hezbollah’s support base by ensuring that the Lebanese Constitution protects all citizens and by pressing Hezbollah to respect the constitution as a document binding equally all citizens and political parties.” Hezbollah now leads the Lebanese government.

Libyan exile Mohamed Eljahmi warned the United States against embracing Tripoli, arguing that “reform will not be possible without outside pressure. . . . The White House’s failure to stand up for dissidents and democrats hurts the US image, not only in Libya but throughout the Middle East. If Washington wants to win hearts and minds throughout the Arab world, it must adopt a more consistent approach to the abuse by dictators of their citizenry.” Qadhafi has been killed. and this is an auspicious moment for the reformers. The Libyan people have liberated themselves.

Syrian exile and founder of the Tharwa Foundation Ammar Abdulhamid directly criticized Syrian president Bashar al-Assad, alleging his regime to be a “small and corrupt clique centered around the president and his immediate family members and friends.” Abdulhamid argued that the opposition groups in Syria can “no longer rely on the issuance of declarations and manifestoes, no matter how brave and groundbreaking they are. Nor should they remain fearful to engage the outside world and the powers shaping the region today.” Over four thousand Syrians have been killed in the first half of 2011 fighting to oust Assad.

The seeds sown in those early years began to blossom in the Arab Spring. To be honest, many had lost hope. Participants in the project were despondent and some had abandoned their efforts; some faced prison, several lost their jobs, and others were forced into exile. The Bush administration, which never matched its rhetoric of freedom with concrete policies, had been followed by the Obama administration, which explicitly rejected the notion of a “freedom agenda.” It looked like half a century of oppression could be followed by another, with all that those policies implied for the flourishing of extremism and terrorism. Our scholars kept beating the drums, but increasingly, we were alone.

After President Barack Obama’s maiden foreign policy speech in Cairo, I wrote that “the president made clear that he is not a believer in ‘democracy,’ explaining that ‘no system of government can or should be imposed upon one nation by any other.’” AEI’s Michael Rubin added that “President Obama received a standing ovation in Cairo. The Arab street should be happy. In Barack Obama, they have found a president for whom accountability matters little, and for whom moral equivalence dominates.”

In December 2010, however, Mohamed Bouazizi immolated himself in the town of Sidi Bouzid, Tunisia, sparking the regional revolutions that toppled longtime Tunisian dictator Zine El Abidine Ben Ali, Egyptian president Hosni Mubarak, and Libyan strongman Muammar Qadhafi, and pushed Syrian dictator Bashar al-Assad to the brink.

Suddenly even those who had disdained the struggle for freedom in the Middle East were caught up in the optimism of the early days of 2011. After some hesitation, Obama himself stepped forward to call for some among the region’s dictators to step down. For the scholars at AEI, the revolutions of the Arab world were in some small part the fruit of those early efforts to give voice to those now at the forefront of the Arab Spring.

In our halls, the response was incredible. In a dozen weeks or so, AEI scholars authored fifty-one articles, wrote eighty-one blog posts, and held three
Is the future certain in the Arab world? Clearly not. The menace of Islamist parties, repression and backlash, sectarian divisions, and indifference from the West remain challenges. But the road to freedom is hardly smooth, and it is unlikely that the aspirations unleashed this year can be easily extinguished.


Our interests derive from our own democracy, giving them ample legitimacy. Welcoming democracy for others does not entail putting our interests in second place, even if advancing our interests overrides opposing views of pro-democracy forces. That is a hard but necessary truth. We may wish it was otherwise, but for our own protection, our statesmen must recognize reality.

In Newsweek, Paul Wolfowitz explained:

One of bin Laden’s followers wrote that the trouble with democracy is that it encourages people to love life too much and fear death, and to become unwilling to perform jihad. What bin Laden and that writer fail to understand is that there are people who do love life but who love freedom more and are willing to risk their lives for it. It is that love of life—not a hope for paradise—that motivates the brave Americans who have defended their country through the generations. And we now see the same brave love of freedom demonstrated by thousands of Arabs.

And where are all those dissidents and reformers who dedicated their lives to Arab freedom? For the most part, pursuing the same dream they were chasing. Omran Salman is a Bahraini journalist and the executive director of the pro-American Arab Reformist Project. Ayat M. Abul-Futtouh lives in Egypt and is the managing director of the Ibn Khaldun Center for Development Studies. She is also a founder and member of the steering committee of the Network of Democrats in the Arab World. Haider Saeed lives in Baghdad and works as a research adviser with the Foundation for the Future. Ali Saif Hassan serves as the executive director of Yemen’s Political Development Forum, an independent, not-for-profit think tank for cultural and intellectual activities. Neila Charchour Hachicha is the founder of Afek Tounes, a new political party in Tunisia. And there are many more.

Is the future certain in the Arab world? Clearly not. The menace of Islamist parties, repression and backlash, sectarian divisions, and indifference from the West remain challenges. An increasingly bellicose and meddlesome Iran is working to undermine progress in the region, a prospect addressed by AEI scholars in a new report Containing and Deterring a Nuclear Iran: Questions for Strategy, Requirements for Military Forces. But the road to freedom is hardly smooth, and it is unlikely that the aspirations unleashed this year can be easily extinguished. Nor has this fight been a passing fancy for the scholars at the American Enterprise Institute. Rather, AEI’s scholars have stood steadfast for the values and freedoms that represent our nation’s best and worked to ensure that those freedoms are not ours alone.

Danielle Pletka is the vice president for foreign and defense policy studies at AEI.
In January 2011, AEI welcomed resident fellow Sadanand Dhume. Mr. Dhume completed his undergraduate work at the University of Delhi before entering the field of journalism, working for the *Far Eastern Economic Review*. Today he studies South Asian affairs for AEI, focusing on India’s rise and the problems presented by Pakistan. He continues to write a column for the *Wall Street Journal Asia*.

Also in January, John H. Makin returned to AEI full-time after a challenging career as chief strategist at the hedge fund Caxton Associates. He has written AEI’s popular *Economic Outlook* since 1995. In an essay found on page 21 of this report, Mr. Makin reflects on themes in his recent *Outlooks* and on differing perspectives in New York City and Washington on the financial markets crisis.

Newt Gingrich, the architect of the 1994 Republican revolution and former speaker of the House of Representatives, joined AEI in 1999. For more than a decade at the Institute, he wrote widely on policy issues ranging from innovative responses to health care problems to the need for an assertive military posture and full-throated defense of America’s exceptional role in a dangerous world. In May, he left the Institute after announcing his candidacy for president of the United States.

In October, Vincent R. Reinhart joined Morgan Stanley as its chief economist. Mr. Reinhart came to AEI after many years at the Federal Reserve, expecting to “work quietly” on global financial issues. However, the financial crisis erupted, and his plans for quiet contemplation evaporated as he became a sought-after commentator on financial developments. Now a visiting scholar at AEI, he will continue his work on an account of the financial crisis.

Walter Berns, AEI’s great constitutional scholar, retired in August at age 92. The Institute honored him at a September event celebrating Constitution Day, at which Supreme Court Justice Antonin Scalia and Mr. Berns’s AEI colleagues Christopher DeMuth and Leon R. Kass spoke. AEI Council of Academic Advisers member Jeremy Rabkin also discussed Mr. Berns’s singular contributions.
AEI mourned the loss of resident scholar John E. (Jack) Calfee, who died unexpectedly in February from heart failure. An economist by training, Mr. Calfee studied the pharmaceutical industry and the Food and Drug Administration, along with the economics of tobacco, tort liability, and patents. His deep knowledge about advances in the biological sciences and the innovations reshaping medical practice informed much of his writing in the years before his untimely death. His 2000 AEI monograph, Prices, Markets, and the Pharmaceutical Revolution, went far beyond familiar arguments opposing price controls to show how the development of new technologies depends uniquely on pricing freedom.

AEI lost a great friend and supporter in October, when Robert Pritzker passed away. Mr. Pritzker joined AEI’s board in 2003 and served until his death. An engineer by training, Mr. Pritzker built a multibillion-dollar global industrial conglomerate, the Marmon Group. He had a keen eye for undervalued manufacturing businesses in areas such as transportation and medical devices that would become highly profitable. Mr. Pritzker, a native of Chicago, gave generously to many institutions there and especially to his alma mater, the Illinois Institute of Technology, where he also taught.
AEI exists to ensure that freedom, opportunity, and enterprise are protected and preserved in the nation’s policymaking process. In recent years, AEI has augmented its impact by hiring some of the nation’s most talented communicators and strategists to ensure our scholarly research receives the attention it deserves. The following is a summary of some of the Institute’s most important communications initiatives in the past year, along with a brief preview of our plans for 2012.
AEI scholars testify before Congress more than once per week on average.

Government Relations

AEI has a deep network of contacts on Capitol Hill and in the administration. Our scholars work diligently to ensure that their research is disseminated to those best placed to enact solutions to our nation’s policy problems. Under the leadership of John Cusey, AEI’s director of government relations, our scholars have increasingly engaged with policymakers on Capitol Hill. During the 111th Congress, for example, AEI scholars testified more than ninety-five times—more often than scholars from any other think tank. Thus far, AEI has also maintained its dominance in the 112th Congress with 66 testimonies—nearly 70 percent more than any other research organization. This record is even more impressive considering that AEI lagged behind its competitors in this regard just a few short years ago.

In addition to these frequent testimonies, the Institute’s scholars work behind the scenes with lawmakers from both political parties. The Obama administration has, in recent months, used research from AEI’s financial markets scholars to help find a solution to the housing crisis. And the White House Domestic Policy Council has called on our education policy team to participate in several discussions about improving America’s postsecondary education system. We also hear frequently from Republican leadership in the House and Senate that AEI’s nonpartisan and fact-based research products are instrumental in their efforts.

Regional Forums

AEI is engaging new audiences outside Washington, DC, and building connections in cities where the Institute has traditionally had little exposure. Nearly every week, our scholars are on the road, meeting concerned citizens and exchanging ideas about the nation’s future.

The Institute’s regional forums are providing a new avenue for engagement with AEI scholars and fellows. We have recently hosted events featuring AEI’s Arthur C. Brooks, John R. Bolton, Danielle Pletka, Dan Blumenthal, and Jonah Goldberg, as well as former New York City schools chancellor Joel Klein and other distinguished guests, all of whom led in-depth discussions on pressing domestic and foreign policy issues. In the coming year, we are organizing
Each year, the American Enterprise Institute hosts hundreds of conferences, seminars, discussions, and debates with leading policymakers, federal officials, business leaders, and newsmakers from around the world.

The following is a sample of the speakers who have recently participated in AEI events to unveil major policy reforms and examine today’s most pressing policy issues:

**Members of Congress**

- **REP. HOWARD BERMAN** (D-Calif.)
- **REP. KEVIN BRADY** (R-Tex.)
- **REP. ERIC CANTOR** (R-Va.)
- **SEN. SAXBY CHAMBLISS** (R-Ga.)
- **SEN. TOM COBURN** (R-Okla.)
- **SEN. SUSAN COLLINS** (R-Maine)
- **SEN. JOHN CORNYN** (R-Tex.)
- **SEN. JIM DEMINT** (R-S.C.)
- **SEN. LINDSEY GRAHAM** (R-S.C.)
- **SEN. ORRIN HATCH** (R-Utah)
- **REP. JEB HENSARLING** (R-Tex.)
- **REP. DUNCAN HUNTER** (R-Calif.)
- **REP. RON KIND** (D-Wis.)
- **SEN. JION KYL** (R-Ind.)
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- **SEN. JOHN MCCAIN** (R-Ariz.)
- **SEN. JON KYL** (R-Ariz.)
- **SEN. MITCH McCONNELL** (R-Ky.)
- **SEN. THOMAS D. RICE** (R-N.Y.)
- **SEN. MARK WARNER** (D-Va.)

**State/Local Leaders**

- **CORY BOOKER**, Newark New Jersey, Mayor
- **GOVERNOR CHRIS CHRISTIE** (R-N.J.)
- **GOVERNOR MITCH DANIELS** (R-Ind.)
- **JOHN DEASY**, Superintendent, Los Angeles Unified School District
- **GOVERNOR NIKKI HALEY** (R-S.C.)
- **GOVERNOR TIM PAVLENTY** (R-Minn.)
- **ANTONIO R. VILLARAIGOSA**, Los Angeles Mayor
- **GOVERNOR SCOTT WALKER** (R-Wis.)

**Foreign Leaders**

- **ALI SULEIMAN AUJJALI**, Libyan Ambassador to the United States
- **JIM FLAHERTY**, Minister of Finance, Canada
- **NIKA GILAURI**, Prime Minister, Republic of Georgia
- **TSAI ING-WEN**, Democratic Progressive Party Presidential Candidate, Taiwan
- **MIKHAIL SAAKASHVILI**, President, Republic of Georgia
- **RADEK SIKORSKI**, Minister of Foreign Affairs, Republic of Poland
- **TIMOTHY CHIN-TIEN YANG**, Minister of Foreign Affairs, Republic of China

**Military**

- **GENERAL MICHAEL HAYDEN**, Former CIA and NSA Director
- **GENERAL JACK KEANE** (Ret.)

**Other**

- **DAVID BROOKS**, New York Times
- **MARTIN FELDSTEIN**, Former Chairman of the Council of Economic Advisers
- **BILL KRISTOL**, The Weekly Standard
- **JAMES MCMURRNER**, Chairman, President, and CEO, Boeing
- **JOHN ROWE**, Chairman and CEO, Exelon Corporation
- **PAUL VOLCKER**, Former Chairman of the Federal Reserve
- **ROBERT ZOELLICK**, President of the World Bank Group

In 2011, our scholars organized nearly 150 public conferences and seminars in AEI's expanded and newly upgraded conference space. These events featured the nation's top policymakers, intellectual leaders, academics, journalists, and business executives and many of them were covered by C-SPAN and other news networks. In addition, we began live-streaming the majority of our conferences for attendees who could not attend the events in person. We were especially pleased that our larger conferences attracted an average of nearly five hundred online viewers from around the country and the world.

The American Enterprise Debates

One provocative question, two insightful and opinionated speakers, sixty minutes of debate: that is the format of AEI's new Enterprise Debates series, which began in late 2010 with a debate between New York Times columnist David Brooks and Rep. Paul Ryan (R-Wis.) over the appropriate size of government. This series challenges conventional wisdom on hot topics and delivers fresh perspectives on the core issues in today's public discourse. One recent debate—which we hosted on Capitol Hill—featured AEI’s Michael Barone and Ruy Teixeira, a senior fellow at the Center for American Progress, discussing the political fallout from changing demographic patterns. The debate attracted an audience of more than
one hundred congressional staffers at the Rayburn House Office Building and was covered by C-SPAN.

This new venture has proven so successful that we are planning to hold a dozen debates in 2012, which will continue to break down the most pertinent issues of the day, such as the proper levels of defense spending, the rise of China, and the importance of “creative destruction” in maintaining the nation’s economic health. We will also disseminate transcripts of the debates as e-books available for the Kindle, iPad, and other e-reading devices.

World Forum

Each year since 1982, AEI has convened a group of prominent international leaders for three days of serious policy discussion and informal exchange of ideas. The frank conversation has spurred genuine, practical progress on key issues in economics, security, and social welfare. This premier event, held in Sea Island, Georgia, attracts top business and financial executives and entrepreneurs, as well as prominent political leaders and distinguished scholars from around the world.

Online Outreach

The Internet is constantly evolving and so, too, must AEI’s website. In 2011, we undertook the largest and most extensive overhaul of AEI’s main website (www.aei.org) in the Institute’s history. The website has been redesigned to better serve our customers’ needs by focusing on the news of the day and AEI’s take on pressing policy issues. Of course, the site will still catalog and archive all of AEI scholars’ output. Our expectation is that the new website will also become a destination site, attracting a significant number of new followers to AEI.

Social media is another key component of AEI’s online outreach strategy. In recent years, we have been building a following on Twitter (@AEI) and on Facebook (www.facebook.com/AEIonline). Most of our followers in these outlets are outside-the-Beltway citizens who want to keep abreast of AEI’s research products. In the coming year, we will seek to expand dramatically our followers on these key social media websites.
The Enterprise Blog

The Internet is home to more than 450 million English-language blogs, providing online consumers of news and policy with a multitude of choices. AEI seeks to make our Enterprise Blog (http://blog.american.com) a leading online source of policy news and robust debate. We recently hired Jim Pethokoukis, an experienced twenty-first-century journalist, to turn this vision into reality.

Before joining AEI, Mr. Pethokoukis most recently blogged and wrote the “Money and Politics” column for Reuters, and he previously was the economics columnist and business editor for U.S. News and World Report. He will continue as a regular contributor to CNBC and will weigh in frequently on the blog, writing about the intersection of Wall Street and Washington.

Media Outreach

AEI scholars are consistently called upon to be guests on the country’s highest-rated radio and television programs and networks, including NPR, Fox News, CNN, MSNBC, and CNBC. We also continue our record of dominating the editorial pages at the nation’s top three daily newspapers—the New York Times, the Washington Post, and the Wall Street Journal. In 2011, we published more op-eds on these pages than scholars at any other think tank.

Young People

Over the course of the Institute’s seventy-year history, we have hosted thousands of young people as staffers and interns. These young people depart AEI for careers in public policy, academia, business, and government. This year, we organized an exclusive, two-week educational seminar for our summer intern class. Over the course of the program, AEI President Arthur C. Brooks and Director of Economic Policy Studies Kevin A. Hassett taught participants the fundamentals of microeconomic policy analysis. AEI scholars Gary J. Schmitt and Thomas Donnelly also instructed students in the principles of democratic statecraft, American strategic culture, and current issues in national security.
A priority of AEI’s outreach efforts is developing a network of young future leaders on the campuses of the country’s top universities. We began this outreach effort in early 2009 with our Values and Capitalism Program, which seeks to disseminate the best of the Institute’s scholarship on campuses, where the free-enterprise system is often dismissed.

Before large audiences on campuses across the nation, AEI President Arthur Brooks has described and explained the moral virtues of capitalism in several robust debates with Jim Wallis, the CEO of Sojourners. We have also hosted numerous sessions with other AEI scholars, including Andrew G. Biggs, Kenneth P. Green, and Steven F. Hayward, to educate young people about topics ranging from fiscal reform to energy policy.

**The AEI Enterprise Club**

The battle for free enterprise will not be won overnight. That is why AEI is building connections today to advance the fight for decades to come. AEI’s new Enterprise Club, open to a select group of emerging young leaders in business, finance, law, and public policy offers a unique forum for engagement with the Institute.

AEI’s Enterprise Club members share a common interest in expanding liberty and individual opportunity in the United States and beyond. Enterprise Club members are selected based on their record of achievement, potential, and depth of intellectual interest in today’s policy debates.

Enterprise Club members are generous financial supporters of AEI, but they also provide the Institute with new insights and fresh perspectives. In the months ahead, we will expand our network of Enterprise Clubs beyond New York and Washington, DC.
Invest in AEI

AEI exists entirely as a result of the generosity of those who share our principles and purposes. Fewer than one thousand donors, along with AEI scholars and staff, comprise our tight-knit community and stand with us in the fight for freedom, opportunity, and enterprise in the United States and around the world.

As evidenced in the preceding pages of this report, the distinguished scholars and fellows in residence at AEI work day in and day out to find solutions to the nation’s most pressing policy problems. This research is further augmented by a network of hundreds of affiliated scholars at universities nationwide. Through an active program of books, research papers, articles and op-eds, media campaigns, and online outreach, AEI keeps Washington policymakers focused on the most important policy challenges and opportunities.

Please consider joining the AEI community by becoming a financial supporter of our research programs. Your gift will help the Institute:

- Defend entrepreneurs and small business owners from the threat of Washington policymakers seeking an ever-expanding welfare state;

- Ensure that the United States protects its values of freedom, opportunity, and enterprise at home and abroad;

- Guarantee that the nation’s foreign and defense policies continue to promote and protect our safety and that of our allies around the world.

None of this work would be possible without generous financial support from our community of individuals, foundations, and corporations. Donations to AEI range in size from less than $100 to more than $1 million and provide the resources needed for AEI to execute its important mission. We hope you will join our community by making an investment using the attached donation envelope.

Donations can also be made in the form of securities, stock, matching gifts, or bequests. You may also contribute online by visiting our website at www.aei.org/donate. Please do not hesitate to contact a member of AEI’s development team anytime (202.862.5834 or development@aei.org).

AEI is a public charity under section 501(c)(3) of the Internal Revenue Code, which means that donations to AEI receive maximum tax benefits. For additional information about joining AEI’s community of scholars and supporters, please visit www.aei.org/support.
AEI’s Community

AEI’s community of supporters in the fight for free enterprise stretches throughout the world. AEI’s Board of Trustees, National Council, Enterprise Club, corporate supporters, policymakers, and the next generation of free enterprise leaders live and do business in cities nationwide. They rely on AEI’s scholarship, help introduce our work to those in different regions of the country, and join our scholars for events from coast to coast. The following are what some members of AEI’s community have to say about AEI’s impact and role in the policy debates.

“If you believe that careful research ought to inform public policy, then you must follow closely what is done at AEI. There gifted scholars produce exceptional studies that make a difference to people who care about freedom, culture, the economy, and national defense.”
—James Q. Wilson, Boston College and Pepperdine University

“AEI is one of a small number of places in Washington where the principles of freedom always receive a warm welcome.”
—Representative Paul Ryan (R-Wis.)

“I’ve served as an AEI trustee for more than fifteen years. AEI understands the ideas that have made America so successful: free enterprise, individual liberty, the rule of law, and an educated citizenry. That’s how it earns my support, year-in and year-out.”
—Ed Rust, chairman and CEO, State Farm Insurance Companies

“I can honestly affirm that my experience here has made me a more reflective, mature, creative, and evolved thinker. Working with and under some of the most passionate individuals in the political science field was simply incredible. . . . It was an honor to witness scholars who devote themselves each day to making the American political system more efficient.”
—Courtney Albini, AEI intern, University of Pennsylvania
2011
FINANCES

This is the first full year in which AEI is reporting financial performance for its new fiscal year ending on June 30. The unaudited information reported is provided in accordance with GAAP accounting conventions. As in past years, there are three significant exclusions from the GAAP figures in those charts that require explanation.

First, 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. Last year, AEI received $1.0 million in revenue that represents forward commitments and are excluded from current operating revenue. Second, AEI had investment gains—totaling $10.9 million—that are also excluded from the revenue reported. Third, these figures do not include endowment contributions or limited-term funding contributed in prior years.

Excluding these adjustments, the Institute raised $12.5 million from individuals, $10.3 million from foundations, and $7.4 million from corporations. The sum of these donations, along with sales, brought the Institute’s annual revenues to $32.1 million. This sum compared to total expenses of $29.0 million.

AEI is deeply grateful to the investors who make the Institute’s work possible and help AEI scholars tangibly impact the public policy debates.

The Institute 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 to anyone who requests it.
AEI’s National Council

AEI’s National Council members are leaders in business and philanthropy who have publicly committed to the mission and success of the Institute. They are ambassadors for AEI, providing insight and strategic advice as we enhance our scholarly programs and build out our community of investors. Please contact Toby Stock, Managing Director of Development, if you have any questions about the AEI National Council (202.862.5834; toby.stock@aei.org).

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