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Series: Speech File Backup Files
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OA/ID Number: 13783
Folder ID Number: 13783-012

Folder Title:
American Enterprise Institute 12/4/91 [OA 8331] [2]

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Plastic Populism

By CHRISTOPHER DEMUTH

The congressional stampede—incited by President Bush—to impose price controls on credit card interest rates is the latest example of a new bipartisan populism in American politics. The idea is to beguile voters with the promise that the government can reduce the price of some widely used good or service. Why price is increasing is a question almost never asked.

The answer is usually straightforward. Relative prices increase because costs of supply increase, and supply costs increase as a result of quality improvements, changes in consumer demand, or legal developments (e.g. expanded tort liability). Price controls cannot abolish these relationships. What they can do, and have done in an unbroken string of policy failures stretching back dozens of centuries, is to cause inefficient repricing of uncontrolled terms of trade, reductions in the quantity and quality of supply, and arbitrary redistributions of income among consumers and producers. The Senate's credit-card bill, which sets the maximum interest rate at four percentage points above the IRS's charge on overdue taxes, fits the pattern perfectly.

The supply of consumer credit is today a highly competitive national market. Thousands of banks, retailers, telephone companies, and others offer credit cards. (It is the individual banks, not Visa and MasterCard, that set interest rates and other credit card terms.) The behemoth of the credit card industry, Citicorp, holds about 4% of the consumer installment credit market, and only three other firms (Sears Roebuck, General Electric Capital and Chase Manhattan) hold as much as 1%. There is not the remotest chance that any credit card issuer could set rates higher than its costs of service, or could permit its costs to escalate without suffering a disastrous loss of business.

Only the Affluent

Twenty years ago credit cards were generally available only to the affluent and could be used only in local markets or with a single retailer. Young families and people of modest means were obliged to bear the costs of keeping relatively large amounts of cash on hand, and their borrowing was limited to finance companies, lay-away plans, pawnbrokers, or family and friends.

The now-ubiquitous credit card has changed all this. It is as good as cash for purchases of a few dollars or several thousand dollars at establishments everywhere in the nation; it permits nationwide telephone purchasing and reservations; it provides instant credit that may be drawn upon and repaid largely at the discretion of the borrower. And it is available to essentially everyone who is not very poor and who is credit-worthy. Substantially more than half of American households with annual incomes of \$10,000 to \$20,000 have a credit card. Usage increases sharply at higher but still modest income levels.

These benefits would have been impossible before technological advances in data processing and communications, and related business advances in marketing credit and managing credit risks. Yet these advances, powerful as they were, would have led nowhere so long as state usury laws were in place. Those laws generally capped interest rates at levels that made it worthwhile for banks, retailers and other lenders to lend only to low-risk local clients who had well-established credit records.

Fortunately, the Supreme Court held in 1978 (in *Marquette National Bank v. First of Omaha Service Corp.*) that interstate loans by nationally chartered banks are governed by the interest rate ceiling of the bank's home state, not the borrower's state—a decision that effectively opened the door to interstate consumer lending. A year later South Dakota abolished its interest rate controls on consumer credit, and New York's Citibank moved its credit card operations there and invaded regulated local credit markets from coast to coast with unregulated South Dakota credit.

Over the next five years, one-third of the states repealed their interest rate controls and another one-third substantially relaxed them. The number of active U.S. Visa and MasterCard accounts grew by more than 40%. A substantial share of the new accounts were working-class families, recent college graduates, and others unable to obtain credit cards before.

In 1986, I was commissioned by the American Bankers Association to do a

The contraction in credit would not be an aggregate tightening affecting everyone a little bit. It would be highly focused on young and working-class families.

study of the likely consequences of credit card interest rate controls. Then as now, short-term commercial rates had been falling while credit card rates had been holding steady at a higher level. Congressional wrath was focused, of course, on the highest credit card rates, which were being charged by banks in states that had repealed their rate controls. "If Arkansas [the strictest control state] can hold down credit card charges for the benefit of its citizens," the congressional proponents asked, "why shouldn't we provide the same benefits for everyone?"

My research revealed, however, that these benefits were an illusion. Consumers themselves—the putative beneficiaries of rate controls—had been flocking by the millions to unregulated credit, and had been doing so precisely at a time (like the present) when falling commercial interest rates were widening the spread between regulated and unregulated consumer rates.

From 1980 through mid-1985, when the quantity of U.S. consumer credit on Visa cards more than doubled, banks in states with no rate controls increased their Visa business more than 27% faster than the national average, mostly by soliciting new accounts among riskier demographic groups, such as students and blue collar workers with no credit history. During the same period, banks in states with strict controls lost 23% of the national Visa market. In general, banks in states with the strictest controls fell furthest behind the national trend.

Back in 1986, many bankers assumed that rate controls would lead to extensive "repricing"—as banks compensated for lower interest rates by raising annual fees, eliminating initial interest-free periods on purchase balances, and making other adjustments. The evidence suggested, how-

ever, that repricing opportunities were limited, and that the dominant effect of controls would be a contraction in the availability of credit, and its restriction to local markets and more affluent groups.

It is true that interest rates on credit cards are higher than commercial rates. This should not be a surprise, because credit card credit is more costly to provide: Administrative costs constitute a larger share of the costs of supplying credit cards than the costs of the funds issuers are lending. But the extent of the rate difference has been exaggerated in almost all accounts of the credit card debate. When one takes account of the initial one-month "free period" on most credit cards and the average time period in which credit balances are paid off, the effective interest rates cardholders are paying are generally several points lower than the official rates.

There is another way in which the congressionally cited interest rates are an illusion: The congressmen advocating controls quote either the highest rates or volume-weighted averages of the rates charged by numerous banks and other suppliers. In fact, rates have become more dispersed over time as the variety of card programs has increased. Some of the largest card issuers, such as Chase and Citicorp, have successfully specialized in marketing cards to younger, less well-off and riskier consumers who were not in the market five or 10 years ago; as a result their current rates are higher than average.

The consumer would not be the only victim of interest rate controls. Banks and other credit card issuers would be seriously damaged too: They would lose business, and their facilities devoted to mass consumer credit would lose value in the same manner as rent-controlled apartment buildings. But Congress has made it plain that it is indifferent to the decline of the American banking industry. As a result, banking executives are quite properly emphasizing the consumer's side of the issue, warning that controls would lead to a prompt and substantial restriction in the availability of credit cards and the size of credit lines, and a consequent drop in retail spending.

Not Evenly Distributing

Congress should also reflect that the restriction of credit would not be evenly distributed. The contraction in consumer credit would not be some kind of aggregate tightening affecting everyone a little bit. Rather it would be highly focused on young and working-class families.

In the late 1970s and early 1980s Democrats and Republicans joined forces to enact a series of sweeping measures deregulating large sectors of the U.S. economy. It was a marvelous era, not only because of the economic benefits it provided but because it drew upon and strengthened the noblest traditions of each party—the Republicans' concern for individual liberty and economic growth, and the Democrats' concern for improving the welfare of average citizens. No doubt it was too good to last. Still, it is disheartening to see the situation not only ended but reversed, with the parties offering tawdry appeals such as consumer price controls, thus compromising their commitments to liberty on the one hand and equality on the other.

Mr. DeMuth is president of the American Enterprise Institute.

(2 Dec. 1991)
Monday

FIVE KEY FACT CHECK

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AEI -

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Collection of "As Far as Republican
Principles will Admit"

AEI 400 p. Collected excerpts
from his life
out January



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Public Papers of the Presidents

Remarks at the Swearing-In Ceremony of Henry Catto as
Director of the United States Information Agency

27 Weekly Comp. Pres. Doc. 731

June 7, 1991

LENGTH: 1601 words

The President. Thanks for that warm welcome. I'm just delighted to be over here for this occasion, the formal swearing-in, and also to give me the opportunity to thank all of you for what you do for your country. I want to salute, of course, Henry Catto and Jessica; Leonard Marks is out here -- one of the former directors of this very important agency.

I'm delighted to stand at the side of my friend of longstanding, Henry Catto. I'm pleased that so many of his friends and family could be with us here to share in this special day. First, let me also salute Dick Carlson, the Director of the VOA [Voice of America]. Dick has piloted the Voice during 5, I think, of its most fascinating years, and done it well. I am just delighted that he has agreed to serve as an ambassador for our country. His service to the public will continue, and I'm very proud that he'll be at my side.

I'm also pleased to announce that his successor, as the new Director, is a man who I know will uphold this extraordinarily proud legacy of the Voice, and I'm talking about, now, Chase Untermeyer. He's now an Assistant to the President, but he was formerly an Assistant Secretary of the Navy, a former journalist; he was an elected official in Texas -- and in his coming into this job, clearly he will be following a long line of distinguished Americans. So he'll need your help, and with it, I know he'll do very, very well.

And of course, I really wanted to have this occasion over here, because I wanted to recognize the talented professionals of USIA. One of the reasons that I'm here today is to thank all of you for an awful lot, but especially for your dedicated service during Desert Shield and Desert Storm. I know many of you put in an awful lot of hours. For many, it was a "round the clock" effort. The expertise of your people in the field, the fine Gulf war pamphlets that you produced -- all the extra hours behind the microphone at VOA and in USIA's TV studios -- helped us get the word out, helped people in the Middle East and around the world separate fact from fiction about Iraq's aggression and the intentions of Saddam Hussein. We were up against an enormous propaganda machine from various quarters overseas. And I think that you all distinguished yourselves with great honor and great credit to the United States of America. So thank you from this grateful heart.

To those of us who know the history, the proud legacy of this agency, USIA's key role in the Gulf comes as no surprise. Since the time President Eisenhower created USIA nearly 40 years ago -- then in the midst of the cold war and conflict -- public diplomacy has played an integral role in American foreign policy. USIA is founded on the belief, the certainty, if you will, that ideas matter: especially to this nation -- a nation founded on the idea of freedom.



27 Weekly Comp. Pres. Doc. 731

The cold war was itself, in the deepest sense, a war of ideas. In that war, USIA acted as America's advocate, spreading the message of democracy and freedom, doing it in a very convincing way, spreading the message of human rights and human dignity. That went behind the Iron Curtain, got past the jammers' wall of noise, and into every corner of closed societies around the world.

And today, at long last, thank God, the cold war has drawn to an end. The Iron Curtain, the Berlin Wall, the monument of lies posing as truth -- all were reduced to ruins by the undeniable power of an idea: that all people everywhere must be free.

Each of you shares in this great triumph of the human spirit. But your work -- I'm sure you all know -- is far from over. Just as millions drew hope from this American idea, so now the American example speaks to people the world over: in the developing countries seeking to unleash the power of free enterprise, to the nations now engaged in the difficult business of democracy-building -- everywhere that men and women still struggle to be free. There's still this example -- the American example -- that we must get out. Today, more than ever in our world of instantaneous communication -- when images, ideas, and information cross the globe at the speed of light -- the work you do at USIA advances our national interest.

Your broadcasts, your exchanges, the overseas libraries and publications, the programs to teach English -- all tell America's story to the world: who we are; how we live; and, perhaps most important, what we believe in.

That is America's message. You here at USIA take America's message to the world. You tell the story that the world still wants to hear.

Let me just close now with the business at hand -- a personal note about my dear friend and your new Director. Back on August 2d -- the day that the Iraqi tanks first rolled into Kuwait -- both Margaret Thatcher and I were scheduled to take part in an Aspen Institute conference out in Colorado -- Aspen, Colorado.

We were also to be Henry's guests at their ranch in Aspen. It turned out to be quite a memorable "working visit," as some of you may remember. I saw firsthand at that critical moment, though, Henry's understanding of a complicated situation, his unerring judgment, his unquestioned expertise -- and above all, his unswerving devotion to principle, as he and I discussed, of the Iraqi invasion.

Everyone who know this man will agree that his considerable strength will serve him well in this proud new post as Director of USIA.

So, once again, my sincerest thanks to all of you for your warm welcome, and much more important than that, for what you do. I expect over here you wonder if we over at the White House even know you exist at times. Maybe you're better if you don't know you exist at times. [Laughter] When Henry suggested we could come over here, it gives me an opportunity to thank you in the best way I possibly can for your dedicated service to the greatest country on the face of the Earth. Now, it is with great pleasure that I will witness the swearing-in of Ambassador Henry Catto as Director of USIA. Thank you.



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[At this point, USIA Director Catto was sworn in.]

Director Catto. Mr. President, Justice Kennedy, USIA colleagues here in Washington and watching throughout the globe on Worldnet or listening on the Voice of America. Spring, sir, is the season of new beginnings. Two springs ago in May of 1989, I had the experience of presenting my credentials to Queen Elizabeth at Buckingham Palace. Thanks to you, Mr. President, for 2 years I had the honor to represent our country in the United Kingdom.

That experience reinforced a belief of mine. I've learned a little something about diplomacy over the years; and if I have, it's that public diplomacy is an indispensable component of an effective foreign policy.

Scholars call ours the Information Age. The Industrial Age was defined by the steam engine, by the dynamo, by the electronic grid. The current epoch is defined by new technologies -- by computers, by satellites, by silicon chips. In the Information Age, public diplomacy is not only valuable, it is essential to any prolonged success in world affairs.

You mentioned, Mr. President, in your remarks, the events of August 2d. I think it would interest everyone here to know that at one point, half of Prime Minister Thatcher's Cabinet were former USIA international visitors. Your public display of unity and determination at that critical moment were crucial in shaping world opinion about the need for an international response to the Iraqi invasion.

The Gulf conflict was the first international crisis, unmistakably, of the Information Age. And appropriately, the men and women of the U.S. Information Agency did themselves proud. And proud they should be, Mr. President. As the coalition took shape, the USIA's public affairs and public information officers on six continents explained America's goals and diplomatic efforts.

Our Worldnet facilities at American Embassies throughout the globe made it possible for foreign journalists to interview by satellite the men and women shaping American policies in the Gulf and on other issues. Meanwhile, here in Washington, the USIA's foreign press center helped American-based foreign journalists by providing briefings, press releases, and press conference facilities.

And all the while, people of the Voice of America did their jobs brilliantly. They got the news, they told it straight. That is their job -- to tell it like it is.

Equally important, and also all the while our exchange programs for scholars and teachers went on, and our AmParts lecturers made tour after tour, and our USIS centers around the globe helped those eager to learn more about America. And if I may say so, nobody could do those things better, either. No one could do them better than USIA.

Once upon a time, a wise man was asked the secret of happiness. He responded: Find a mission in life and take it seriously. Mr. President, the men and women of the United States Information Agency have a mission. They carry and transmit to a world that hungers for America's story -- our news, the best of our culture, information about our policies -- an understanding of our way of life. That is our mission -- to be America's information agency in the

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Information Age. We do, and we will, take that mission seriously.

Mr. President, thank you for the honor you have done me and for the thrill you've given us all by paying us a visit here today. Thank you very much.

Note: The President spoke at 10:14 a.m. in the Voice of American Auditorium.

27 November 1991

MEMO TO DAN

FROM: J BUNTON 

SUBJECT: BACKGROUND ON AEI

from 1990-1991 annual report:

AEI founded 1943

sponsors original research on government policy, American economy
and American politics

home to some of America's most renowned economists, legal
scholars, political scientists and foreign policy specialists

generate up-to-the-minute studies on major domestic and
international issues

distinguished foreign policy scholars include: Jeane Kirkpatrick,
Richard Pearle

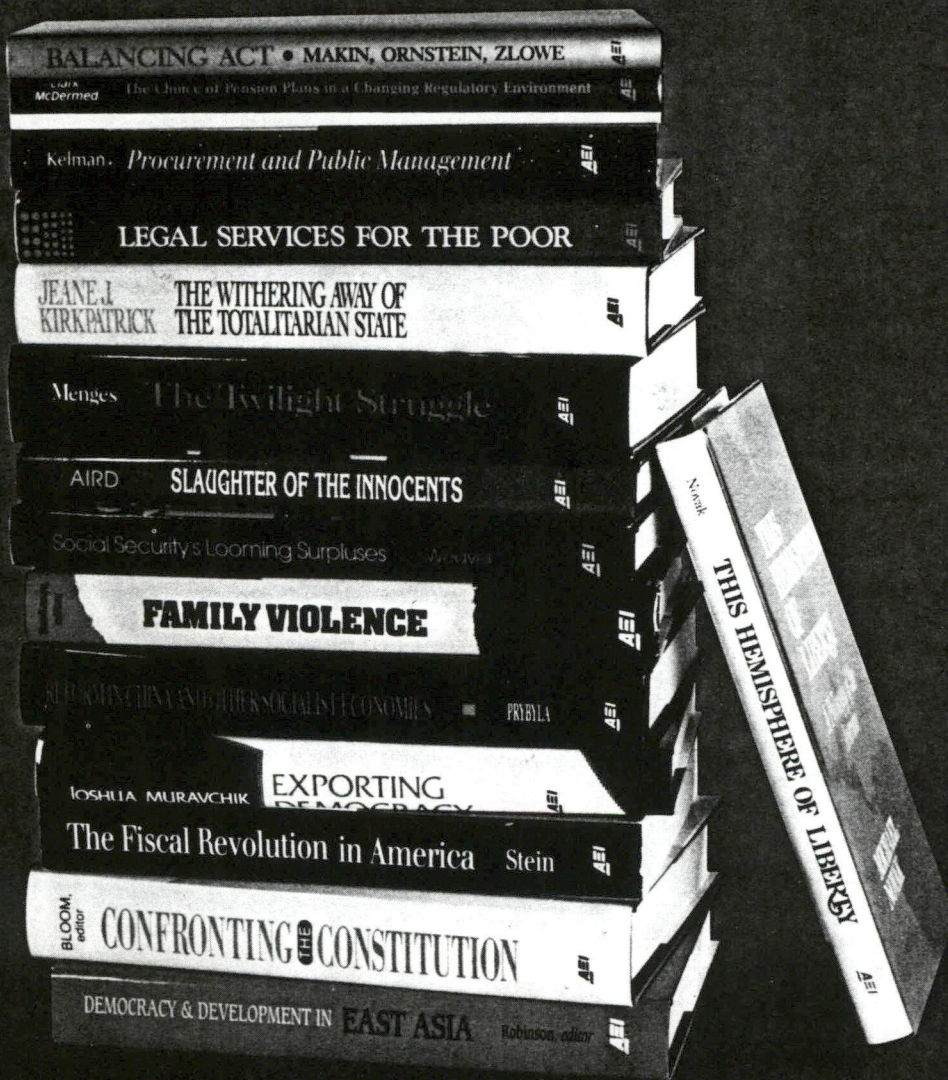
Social policy experts: Robert Bork, Irving Kristol

the democratic debate



AEI
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1943
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The American Enterprise Institute, founded in 1943, sponsors original research on government policy, the American economy, and American politics. AEI research aims to preserve and strengthen the foundations of a free society — limited government, competitive private enterprise, vital cultural and political institutions, and vigilant defense — through rigorous inquiry, debate, and writing. The Institute is home to some of America's most renowned economists, legal scholars, political scientists, and foreign policy specialists. AEI is an independent, nonpartisan organization financed by tax-deductible contributions from corporations, foundations, and individuals.



CHAIRMAN'S MESSAGE

This year's war in the Persian Gulf focused attention on policy debates as never before. Total defense expenditures, American technology, political solutions, energy policy, and the economic consequences of war are all subjects in the forefront of the American agenda.

On all these subjects and countless others, the American Enterprise Institute is on the leading edge with timely analyses and thoughtful recommendations for policy improvements.

One of the characteristics that distinguishes democracy from other forms of government is the extraordinary interplay of interests and ideas in the policy-making process. Businesses, the media, and citizens compete for the attention of elected representatives and appointed officials, whose decisions touch their lives and fortunes in so many ways.

To some, it is a confusing process. To others, particularly to those who, like me, have experienced other systems of government, it is one to cherish and to support.

From AEI's Washington offices come up-to-the-minute studies on major domestic and international issues. Distinguished foreign policy scholars like Jeane Kirkpatrick and Richard Perle, working with younger colleagues like Mark Falcoff, Patrick Glynn, and Joshua Muravchik, bring a keen awareness of the vital interests of the United States to their studies of the Soviet Union, the Middle East, and other parts of the globe.

Economists Marvin Kosters, John Makin, Allan Meltzer, Herbert Stein, and Irwin Stelzer write on taxation, fiscal and monetary policy, international trade, and other issues.

Social policy experts and political scientists such as Robert Bork, Irving Kristol, Michael Novak, Norman Ornstein, and Ben Wattenberg study elections, politics, demographics, family policy, and the battle for our common culture.

The range of AEI research is extensive. The focus is sharp and precise. The timing is felicitous. And the professional reputations of its scholars and fellows are unmatched by any comparable institution.



AEI Chairman Paul F. Oreffice, right, presents the Francis Boyer Award to Thomas Sowell, Hoover Institution senior fellow, at AEI's 1990 Annual Dinner.

“One of the characteristics that distinguishes democracy from other forms of government is the extraordinary interplay of interests and ideas in the policy-making process.”

—Paul F. Oreffice



Robert H. Malott, AEI trustee; Akio Morita, chairman, Sony Corporation; and Brent Scowcroft, U.S. national security adviser, at the 1990 World Forum.



*Richard D. Wood
AEI trustee*

Americans today seek diplomatic corollaries to our military success in the Persian Gulf. We want to export democracy to peoples of other lands who yearn for freedom. America continues to be the example that most others want to follow.

Our agenda on the home front is no less ambitious. We want to curb excessive government regulation and to cut wasteful spending and at the same time to educate our children better, to protect our environment, and to strengthen America's competitive edge.

At a time when so many problems crowd the agenda, when our nation operates under such severe financial restraints, we are fortunate indeed to have AEI's scholars concentrating their expertise on these debates.

In 1990 I succeeded Willard C. Butcher as chairman of AEI's Board of Trustees. All of us at AEI are greatly indebted to Bill for his extraordinary years of leadership, and I look forward to his continuing service on the Board. I also extend our sincere thanks to departing trustees Randall Meyer of Exxon, Edmund T. Pratt, Jr. of Pfizer, Mark Shepherd, Jr. of Texas Instruments, and Roger B. Smith of General Motors.

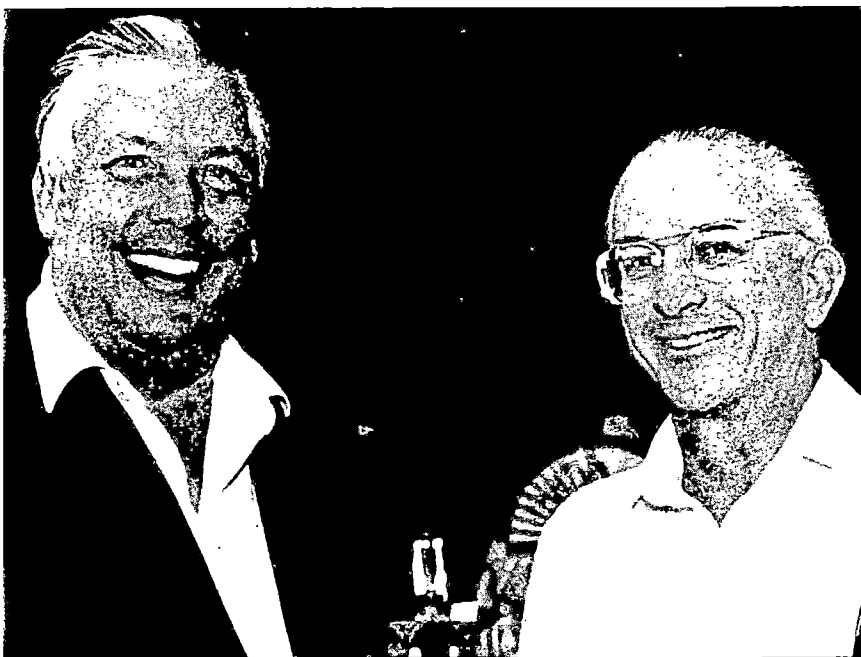
I have already come to appreciate other members of the Board — men whose years of accomplishment in business and public life prepared them well to guide AEI today. I take particular pleasure in welcoming our new trustees: Edwin L. Artzt of Proctor and Gamble, Malcolm S. Forbes, Jr. of Forbes, Inc., Wilson H. Taylor of Cigna, and Charles Wohlstetter of GTE.

Working with them, I intend to see that AEI's scholars have all the resources they need to continue their vital contributions to the democratic debate.

*Paul F. Oreffice
Chairman
AEI Board of Trustees*



David Packard, AEI trustee, and Margaret Thatcher, former British prime minister, meet following her March 1991 address in Washington.



Former AEI Chairman Willard C. Butcher and Paul F. Oreffice at the 1990 World Forum

PRESIDENT'S MESSAGE



AEI President Christopher C. DeMuth

It has been an eventful year, even by recent standards of pell-mell historical development. The brilliant success of the American-led forces in the Gulf war vindicated the military build-up of the Reagan years and the character and leadership of George Bush. But above all it vindicated freedom and democratic self-government: it demonstrated anew what free people are capable of when pushed. This is surely the chief lesson the world will draw from this brief, violent episode. The war was new evidence of the widening gulf between liberal democracies and dictatorships on all measures of proficiency, civilization, and well-being.

Unfortunately, domestic political developments were not so heartening. The federal budget was placed on autopilot through the 1992 elections with a bipartisan “deficit reduction package” that legislates substantial increases in taxation, spending, and deficits. The surge in federal regulation of virtually all major economic sectors, much of it harmful or counterproductive, was palpable to everyone in Washington and is contributing far more than is generally understood to the economy’s poor performance. Serious long-term problems — especially our huge, demographically

unsustainable income transfers to retired citizens from working-age citizens and their children, and the deep social disorders in our poorest urban communities — continued to be neglected.

Protectionist sentiment waxed strongly in Congress — fueled by increasing protectionist actions in Europe and Asia — leading to genuine apprehension about the future of the international trading order.

On these fronts and others — when our views were advancing and even when they were, for the moment, retreating or stymied — the American Enterprise Institute contributed abundantly to policy and policy debate throughout the year. We sought, as ever, to offer rigorous practical analyses and, where warranted, unflinching criticism; to remain slightly ahead of what was considered politically fashionable in establishment Washington; and to retain a sense of humor (portrayed in Elliott Banfield’s witty cover illustration) about the American political system and AEI’s distinctive role in that system.

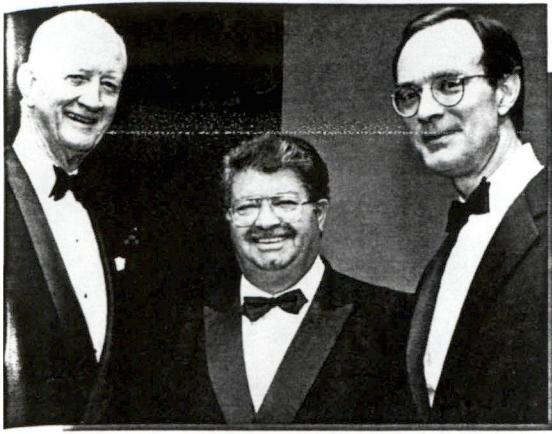
Longstanding AEI research interests in the reform of financial market regulation, the promotion of democratic capitalism in Eastern Europe and elsewhere, and “new paradigms” for approaching problems of welfare and dependency emerged at the forefront of policy debate,

and our scholars and their research were consulted frequently by executive branch officials, members of Congress, business executives, and journalists.

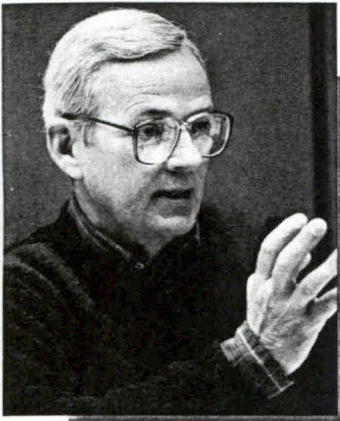
AEI initiated new research in environmental regulation, health care policy, social security reform, and campaign finance that is likely to pay off only slowly over time, but where the policy stakes clearly warrant such long-term intellectual investment.

AEI defense and foreign policy scholars made notable contributions to the Gulf war debate through essays in the national print media, television interviews, and private meetings from the Pentagon to Capitol Hill (a very senior administration official phoned for no other reason than to inform me that AEI had performed a “great national service” during the Gulf campaign).

Our own publications received wider readership than ever before. They included important, well-received new books by Jeane Kirkpatrick, Ben Wattenberg, Joshua Muravchik, and Dinesh D’Souza, and the



Above: Winton M. Blount, AEI trustee and treasurer; Turgut Ozal, president of Turkey, and Mr. DeMuth at AEI's dinner honoring President Ozal



Left: Paul H. O'Neill, AEI trustee

successful first year of our award-winning policy magazine, *The American Enterprise*. Other publications on subjects as diverse as pension regulation, child abuse, and infrastructure investment found their own more specialized audiences.

These and other endeavors are chronicled throughout this report. I would like to highlight our good fortune in attracting to AEI the eminent social scientist Charles Murray, whose position is supported by the Lynde and Harry Bradley Foundation; Robert Helms, who headed AEI health policy research for several productive years in the 1970s and is reestablishing our work in the area; Heather Gradison, former chairman of the Interstate Commerce Commission, who is working with me in initiating several new projects concerned with social and economic regulation; and General Bernard

Schriever, who oversaw the development and deployment of America's ICBMs in less time than it now takes a congressional committee to write a report on a procurement violation, and who is working on defense management and intelligence issues.

D. Gale Johnson of the University of Chicago retired as chairman of our Council of Academic Advisers after years of valuable contributions to AEI research, and he was succeeded by James Q. Wilson of the UCLA Graduate School of Management; the AEI Press will soon be publishing new books by both Gale (on agricultural trade issues) and Jim (on individual character and public policy).

Reflecting these new appointments and research projects, AEI's operating expenses grew 13 percent in 1990. Our research and publications activities actually grew somewhat more than this, as we were able to reduce our administrative expenses for the fourth consecutive year. AEI research continues to focus on the most critical issues affecting individual liberty and responsibility, limited government, and economic prosperity in the United States and the future of democracy and free enterprise around the globe.

AEI's financial performance in 1990 was robust; our revenues were 15 percent higher than the previous year,

reflecting healthy increases in donations from business firms, foundations, and individuals. We were, in addition, greatly honored to receive a major endowment gift from the W.H. Brady Foundation in memory of the late William H. Brady of Milwaukee, whose achievements as an industrialist were matched by his contributions to the conservative intellectual movement throughout his long and successful life. AEI's new W.H. Brady Distinguished Fellowship will be concerned with the cultural and philosophical underpinnings of the free society.

Fundraising for our 1991 program presents new challenges, because of the recession and the changing priorities of some large foundations that have supported AEI over the years. Although we are prepared to meet these challenges, the Institute cannot remain entirely dependent on annual gifts over the long run and requires some permanent endowment. I believe AEI's stature and purposes merit such an endowment, and I will be working with our trustees to attempt to build one as we approach our fiftieth anniversary in 1993.

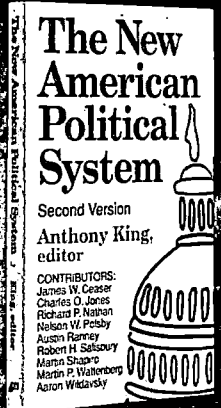
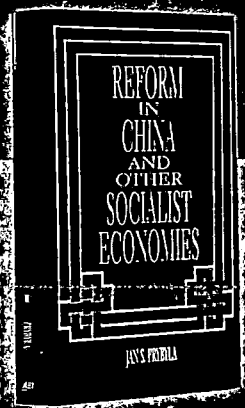
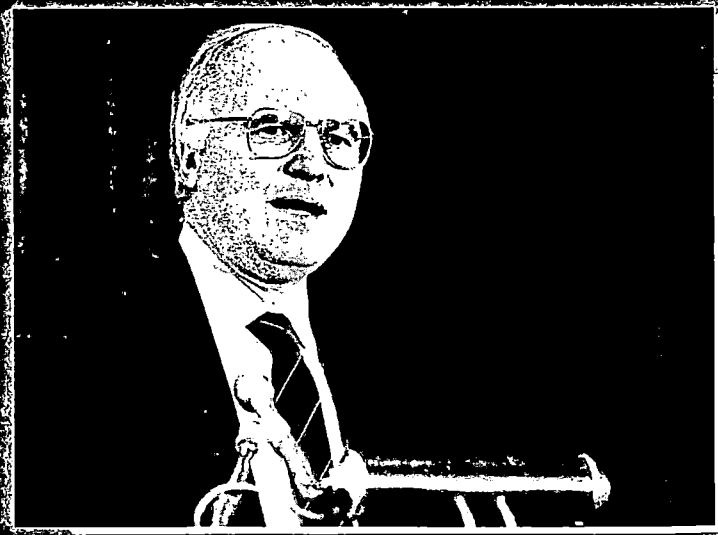
Christopher C. DeMuth
President
American Enterprise Institute

AEI RESEARCH



A EI's name expresses its purpose. We are for American enterprise — for the maintenance of a free and prosperous economic order, a resolute national defense, and tradition-proven cultural and political values. And we are for public policy research — rigorous, independent research into questions of government policy and politics.

AEI research is concerned with three general subjects: domestic and international economic policy, led by Marvin Kusters; foreign and defense policy, led by Jeane Kirkpatrick; and social and political studies, led by Michael Novak.



“The political system of the United States has proved itself remarkably flexible and resilient over a period of 200 years, a far longer period than most other systems have survived. There is no reason to suppose that it cannot be adapted to meet a new set of challenges, however unfamiliar.”

—Anthony King

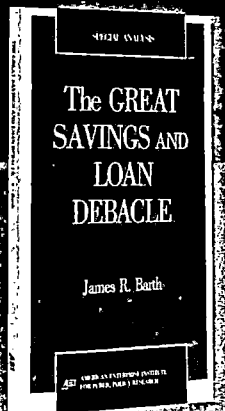
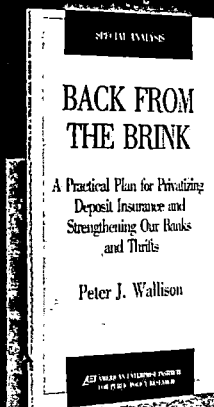


“Real financial reform will not come until large depositors have an incentive to monitor what their banks do, just as they monitor the credit-worthiness of others who owe them money.”

—Allan H. Meltzer



AEB's resident faculty includes distinguished scholars and policy experts. Among them (clockwise from top right) are: Jeane J. Kirkpatrick, senior fellow; William Schneider, resident fellow; Allan H. Meltzer, visiting scholar; Michael Novak, George Frederick Jewett Scholar; Richard N. Ferle, resident fellow; and Ben J. Wattenberg, senior fellow.



Economic Policy Studies

AEI was founded in 1943 mainly to conduct economic policy research. While our interests have broadened through the years, this area remains the core of our work. Our goal is to understand how to preserve the free society, how to solve the problems that arise in a free society, and how to utilize the strengths of a free society. Following are highlights of 1990-1991 economic policy studies.

“What makes the American society so adaptable is that we have an economic system interacting with a political system, each independent and each competitive within itself. Each system disciplines the other, limits its excesses, and acts to correct its deficiencies.”

—Herbert Stein



C. Boyden Gray, counsel to the president, at an AEI seminar



Alan Greenspan, Federal Reserve Board chairman, at the 1990 World Forum



Senior Fellow Herbert Stein discusses the effects of defense spending on the federal budget at an AEI conference.



Resident Scholar Claude E. Barfield is director of science and technology policy studies at AEI. He writes on international trade and U.S. competitiveness and is director of AEI's Europe 1992 Project. With Mark Perlman Mr. Barfield edited *Industry, Services, and Agriculture: The United States Faces a United Europe and Capital Markets and Trade: The United States Faces a United Europe* (both AEI Press, forthcoming).



Douglas J. Besharov is resident scholar and director of the Social and Individual Responsibility Project. He is the author of *Recognizing Child Abuse: A Guide for the Concerned* (Free Press, 1990) and editor of *Legal Services for the Poor: Time for Reform*, *Family Violence: Research and Public Policy Issues*, and *Combating Child Abuse*, all published by AEI in 1990.



Resident Fellow Irwin M. Stelzer responds to a question at the 1990 World Forum.



William K. Reilly, Environmental Protection Agency administrator, at AEI's June 1990 conference, "Is Environmental Policy Good for Business?"



Paul A. Samuelson, Nobel Prize-winning economist (at right), discusses the lifetime contributions to economics of his teacher Gottfried Haberler at a luncheon honoring the AEI resident scholar on his ninetieth birthday in July 1990.



John H. Makin, resident scholar and director of fiscal policy studies at AEI

“Gottfried Haberler is a giant among giants.”

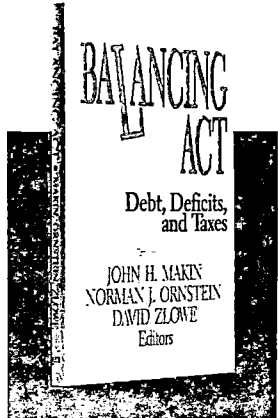
—Paul Samuelson



Robert H. Bork, John M. Olin Scholar in Legal Studies at AEI, writes on politics, legal policy, and constitutional theory. Mr. Bork was a judge on the U.S. Court of Appeals for the District of Columbia Circuit from 1982 to 1983. A paperback edition of his best seller, *The Tempting of America: The Political Seduction of the Law*, published in 1990, by Simon and Schuster.



Dineah D'Souza, a research fellow, is the author of *Illiberal Education: The Politics of Race and Sex on Campus* (Free Press, 1991). He was a senior policy analyst at the White House from 1987 to 1988. Mr. D'Souza is editor of *Crisis* magazine.



Fiscal and Monetary Policy

- AEI Scholars John H. Makin and Norman J. Ornstein and Research Associate David Zlowe edited *Balancing Act: Debt, Deficits, and Taxes* (AEI Press, 1991), essays on fiscal and tax policies for the 1990s by Rep. Willis Gradison (R-Ohio), Secretary of Housing and Urban Development Jack Kemp, and other economic experts.

- Messrs. Makin and Ornstein are completing *Debt and Taxes: Politics and Fiscal Policy in America* (AEI Press, forthcoming).

- AEI published a revised edition of Senior Fellow Herbert Stein's *The Fiscal Revolution in America*, a classic study of fiscal policy from the Hoover administration to the present day.



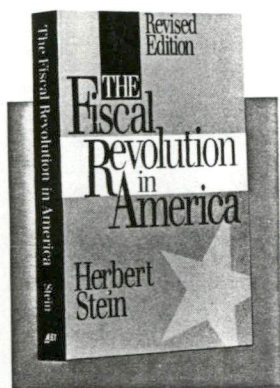
Michael J. Boskin, chairman, Council of Economic Advisers and nine former CEA chairmen reflect on their experiences advising presidents about economic policy—from Eisenhower to Bush—at AEI's 1990 Annual Policy Conference. Seated, from left: AEI Senior Fellow Herbert Stein, Mr. Boskin, Alan Greenspan, AEI Trustee Paul W. McCracken. Standing, from left: Gardner Ackley, Beryl W. Sprinkel, Murray L. Weidenbaum, Raymond J. Saulnier, Martin Feldstein, and Charles L. Schultze.

- Mr. Stein and Visiting Scholar Murray F. Foss began work on *An Illustrated Guide to the U.S. Economy*, an annotated compilation of current economic data. AEI is publishing the book in 1991.

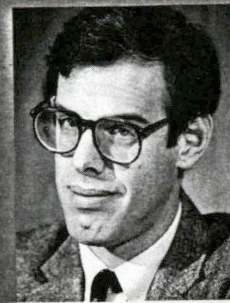
- Visiting Scholar Allan H. Meltzer completed *Money and the Economy* (Cambridge University Press, 1991), a collection of essays written with the late

Karl Brunner of the University of Rochester, and *Political Economy* (Oxford University Press, 1991).

- Chairman of the Council of Economic Advisers Michael J. Boskin and all nine of the living former CEA chairmen reflected on their experiences advising presidents at a special panel discussion at AEI's Annual Policy Conference in December 1990.



Visiting Fellow Anthony R. Dolan was director of speech writing and chief speech writer for President Ronald Reagan. A Pulitzer Prize-winning journalist, he is writing *Undoing the Evil Empire: How Reagan Won the Cold War* (AEI Press, forthcoming).



Nicholas N. Eberstadt is a visiting scholar at AEI and a visiting fellow at Harvard University's Center for Population Studies. His research interests include international development, demographics, and foreign aid. Mr. Eberstadt is author of *The Tyranny of Numbers* and coeditor of *Comparing the Soviet and American Economies* (both AEI Press, forthcoming).



Samuel K. Skinner, secretary of transportation, addresses AEI's February 1991 conference, "Infrastructure Needs and Policy Options."

Regulation

- AEI's October 1990 conference, "The Deregulation of Network Industries," examined new approaches to the special problems of industries where monopoly conditions constrain market operations regarding prices and services.

- Resident Scholar Robert H. Hahn wrote studies of regulatory costs and benefits for the academic journals *Public Choice*, *Yale Journal on Regulation*, and *Harvard Journal of Law and Public Policy*.

- AEI published *The Choice of Pension Plans in a Changing Regulatory Environment*, a study of the effects of changes in federal tax law and other regulations on employee pension plans by economists Robert L. Clark and Ann A. McDermed.

- AEI also published *The Great Savings and Loan Debacle* by James L. Barth, a detailed study of the policy errors that led to the S&L bailout crisis, and *Back from the Brink: A Practical Plan for Privatizing Deposit Insurance and Strengthening Our Banks and Thrifts*, by Peter J. Wallison, a plan for averting similar problems in the banking industry.

- Economist Robert B. Helms, former assistant secretary for policy and evaluation of the Department of Health and Human Services from 1981 to 1989, was appointed director of AEI's new Health Policy Studies Program in 1990.



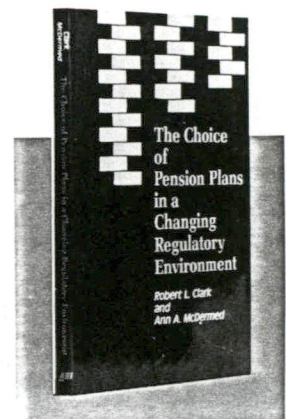
Christopher C. DeMuth, AEI president, greets Clayton Yeutter, then-secretary of agriculture, at AEI's June 1990 conference, "Is Environmental Policy Good for Business?" With them is William K. Reilly, Environmental Protection Agency administrator.



Resident Scholar Mark Falcoff served on the staffs of the Senate Foreign Relations Committee and the Council on Foreign Relations from 1986 to 1988. He writes on Latin American politics, U.S. foreign policy, and intelligence policy. Among his books are *A Tale of Two Policies: U.S. Relations with the Argentine Junta, 1976-1983* (Foreign Policy Research Institute, 1989) and *Modern Chile, 1970-1989* (Transaction Books, 1989).



Suzanne Garment, AEI's DeWitt Wallace Fellow, is author of *Scandal Time*, a study of the politics of Washington scandals (Random House, forthcoming). She was associate editor of the editorial page of the *Wall Street Journal*. Ms. Garment writes on elections, ethics in government, and the media.



International Trade and Finance

- Resident Fellow Claude E. Barfield and Adjunct Scholar Mark Perlman edited two volumes of papers from AEI's March 1990 conference, "The United States and Europe in the 1990s." AEI will publish one book on the flow of capital and trade and one on industry, services, and agriculture in 1991.

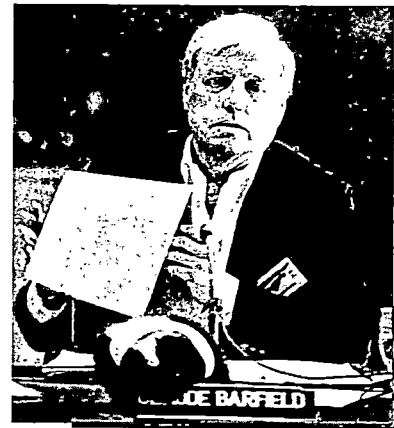
- AEI's September 1990 conference, "Innovation, Intellectual Property, and World Competition," considered the ability of the U.S. copyright and patent system to keep pace with rapid developments in the intellectual property field.

- Papers from AEI's May 1990 conference, "International Competitiveness in Financial Services," were edited by Resident Scholar Marvin H. Kusters and Visiting Scholar Allan H. Meltzer and were published in the *Journal of Financial Services Research* in December.

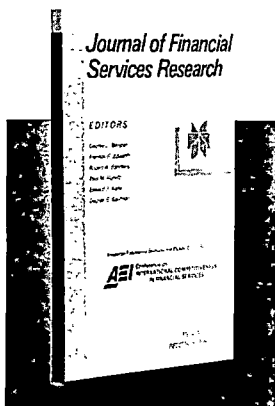
- Visiting Fellow Bernard Schriever and members of AEI's Technology Policy Working Group met during the year to formulate policy recommendations to encourage the timely application of U.S. technological innovations in the commercial marketplace.



AEI Trustee Bruce Kovner speaks at AEI's May 1990 conference, "International Competitiveness in Financial Services."



Resident Fellow Claude E. Barfield at the 1990 World Forum



Patrick Glynn, a resident scholar, was special assistant to the director of the Arms Control and Disarmament Agency from 1986 to 1987. His latest book is *Closing Pandora's Box: A Critical History of Arms Control* (New Republic/Basic Books, forthcoming).



Resident Scholar Robert A. Goldwin, codirector of ten volumes in AEI's Constitution Project series, is writing a book on the drafting and ratification of the Bill of Rights. AEI published his collection of essays, *Why Blacks, Women, and Jews Are Not Mentioned in the Constitution, and Other Unorthodox Views*, in 1990.

Labor Market and Retirement Studies



Resident Scholar Carolyn L. Weaver discusses social security legislation with Senate Minority Leader Robert Dole (R-Kan.) at an AEI conference.

- Resident Scholar Marvin H. Kusters edited *Workers and Their Wages: Changing Patterns in the United States*, a collection of essays on changes in wage relationships and the labor force in the 1980s. AEI will publish the book in 1991.

- Resident Scholar Carolyn L. Weaver edited *Social Security's Looming Surpluses: Prospects and Implications* (AEI Press, 1991), a study of the economic consequences of social security trust fund surpluses. Nobel Laureate James Buchanan and Council of Economic Advisers Chairman Michael J. Boskin wrote essays for the volume.

- Ms. Weaver also edited *Disability and Work: Incentives, Rights, and Opportunities*, a critical study of the Americans with Disabilities Act of 1990. AEI will publish the book in 1991.

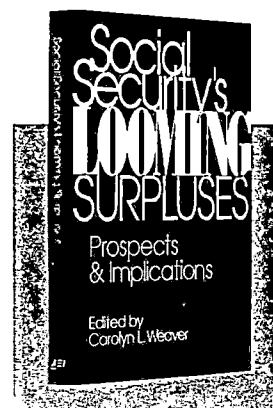
- At an AEI seminar in September 1990 Richard A. Epstein, professor of law at the University of Chicago, discussed the economic effects of civil rights laws intended to help minority workers.



Gottfried Haberler, a resident scholar in Galen L. Stone Professor of International Trade, Emeritus at Harvard University, where he taught from 1936 to 1971. His research interests include U.S. and international monetary policy, exchange rates, and trade.



Resident Scholar Robert W. Hahn writes on energy and environmental policy and economic regulation. He was a senior staff economist on the Council of Economic Advisers from 1987 to 1989 and a professor of economics at Carnegie Mellon University from 1982 to 1987. In 1990 President Bush named Mr. Hahn a cochairman of the U.S. Alternative Fuels Council.



Foreign and Defense Policy Studies

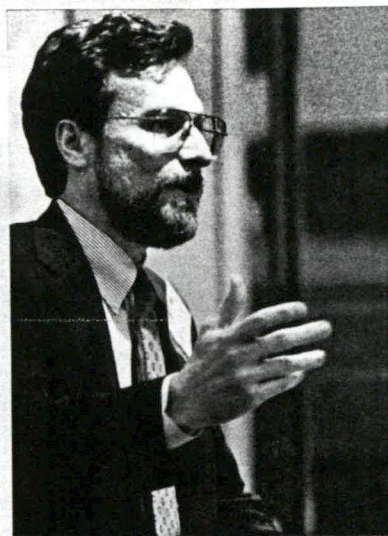


Above: Dick Cheney, secretary of defense, speaks on the U.S. military budget and the Gulf war at AEI's February 1991 conference, "Defending America in the 1990s."

Left: Resident Scholar Patrick Glynn discusses arms control and national security at an AEI conference.

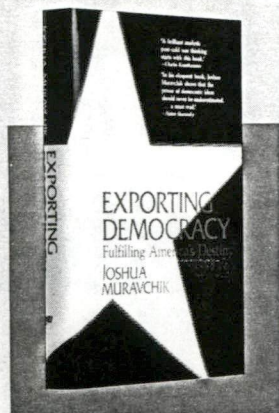
AEI's program in foreign and defense policy seeks to understand how American interests and those of political and economic freedom generally can be advanced in today's rapidly changing world. We are looking specifically at the dramatic changes taking place in the Soviet Union, Eastern Europe, and the Middle East. The

program also focuses on the new challenges wrought by the breakdown of bipolar "superpower" politics and on the transition to democracy in developing countries. Following are highlights.



“A brilliant analysis, not just of the practice but of the theory of American foreign policy”

—Charles Krauthammer
The New Republic



Robert B. Helms is a resident scholar and director of AEI's Health Policy Studies Program. He served as assistant secretary for policy and evaluation of the Department of Health and Human Services from 1981 to 1989 and was executive director of the American Pharmaceutical Institute from 1989 to 1990.



Charles R. Hulten is a visiting scholar and professor of economics at the University of Maryland. His research interests include monetary policy, fiscal policy, and infrastructure issues.



Above: Irving Kristol, John M. Olin distinguished fellow; Joshua Muravchik, resident scholar; and Ben J. Wattenberg, senior fellow, discuss prospects for a new world order at an AEI conference.



Brent Scowcroft, U.S. national security adviser, at the 1990 World Forum

“The triumph of democracy in China and the Soviet Union would mean that democracy would become the global norm. For our nation, this is the opportunity of a lifetime. Our failure to exert every possible effort to assist this outcome would be unforgivable.”

—Joshua Muravchik



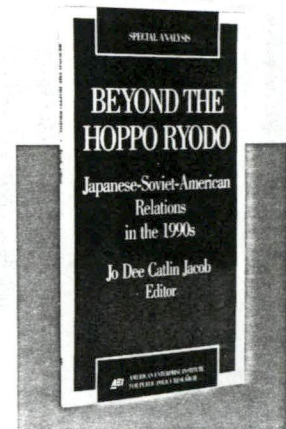
Above: Robert M. Gates, U.S. deputy national security adviser, at an AEI briefing



Resident Fellow Karyl H. Keene edits AEI's magazine, *The American Enterprise*. She writes on politics, elections, and public opinion for the *Wall Street Journal*, *Christian Science Monitor*, and other publications.



Senior Fellow Jeane J. Kirkpatrick is director of foreign policy and defense studies at AEI and holds the Leavay Chair in the Foundations of American Freedom at Georgetown University. She was U.S. permanent representative to the United Nations from 1981 to 1985. Her most recent book is *The Withering Away of the Totalitarian State...and Other Surprises* (AEI Press, 1990), a study of the collapse of communism in the Soviet Union and Eastern Europe.



U.S.—Soviet Relations



Patrick Glynn, resident scholar, welcomes Prime Minister Edgar Savisar of Estonia to an AEI forum on political developments in the Baltic States.

- Senior Fellow Jeane J. Kirkpatrick's *The Withering Away of the Totalitarian State...and Other Surprises* (AEI Press, 1990), collected articles on political and military reform in the Soviet Union and Eastern Europe.

- Resident Scholar Constantine C. Menges completed *The Twilight Struggle: The Soviet Union v. the United States Today*, a study of Soviet efforts to spread communism in Africa, Asia, and Latin America (AEI Press, 1991).

- Visiting Scholar Nicholas N. Eberstadt and Igor Birman edited *Comparing the Soviet and American Economies: Total Output,*

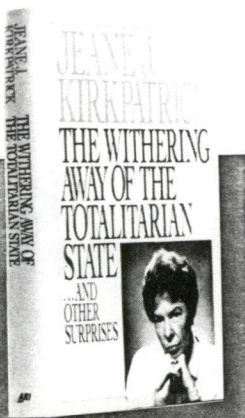
Living Standards, and Military Expenditures, a collection of papers from AEI's April 1990 conference that compared the economic potential, standard of living, and military expenditures of the United States and the Soviet Union. AEI will publish the book in 1991.

- AEI published *Beyond the Hoppe Ryodo: Japanese-Soviet-American Relations in the 1990s*, a special analysis edited by U.S. Navy Commander Jo Dee Catlin Jacob, a 1989–1990 Navy Fellow at AEI.

- Anatoly Sobchak, mayor of Leningrad, spoke at AEI in October 1990 about efforts to promote democracy and private enterprise in the Soviet Union.



Anatoly Sobchak, mayor of Leningrad, at an AEI luncheon



Resident Scholar **Marvin H. Koters** is director of economic policy studies at AEI. He writes on regulation, the economy, and labor market issues. Mr. Koters edited *Workers and Their Wages: Changing Patterns in the United States* (AEI Press, 1991) and coedited "International Competitiveness in Financial Services" (*Journal of Financial Services Research*, 1990).



Irving Kristol is the John M. Olin Distinguished Fellow at AEI. He is coeditor of *The Public Interest* and publisher of *The National Interest*. Mr. Kristol's articles on politics, culture, and international relations appear in the *Wall Street Journal*, *Times Literary Supplement*, and other publications.



Dick Cheney, secretary of defense, and Richard N. Perle, resident fellow, at an AEI press seminar

Below: Margaret Thatcher, former British prime minister, addresses a March 1991 luncheon hosted by AEI, the Heritage Foundation, the Hoover Institution, the Manhattan Institute, and National Review magazine.



“Strong defense will continue to be costly, for technology does not stand still. But the only real peace dividend is, quite simply, peace.”

—Margaret Thatcher

Defense and Arms Control

- AEI's February 1991 research conference, "Defending America in the 1990s," included presentations by Secretary of Defense Dick Cheney, Senate Republican Leader Robert J. Dole, and other national security and defense experts. AEI will publish the conference proceedings, edited by Resident Scholar Patrick Glynn, in 1991.

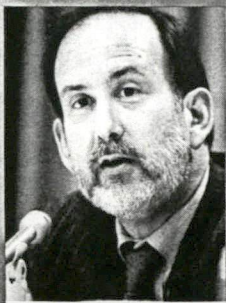
- Mr. Glynn continued work on his book, *Closing Pandora's Box: A Critical History of Arms Control* (New Republic/Basic Books, 1991).

- Margaret Thatcher, former British prime minister, spoke on the future of NATO and the role of the United States in the new Europe at a March

1991 luncheon in Washington sponsored by AEI, *National Review*, the Heritage Foundation, the Hoover Institution, and the Manhattan Institute.

- Resident Fellow Richard N. Perle organized a series of seminars for Washington columnists and bureau chiefs on key national security and foreign policy issues. Guest speakers included Dick Cheney, secretary of defense, and Ahmad Chalabi, Iraqi Shiite opposition leader.

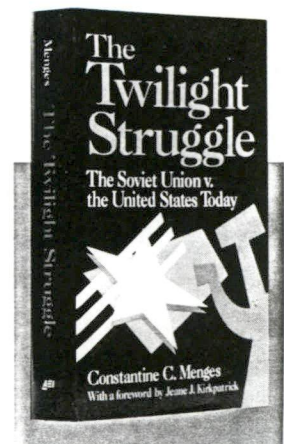
- Mr. Perle edited *Reshaping Western Security: The United States Faces a United Europe*, a collection of essays from AEI's March 1990 conference. "The United States and Europe in the 1990s." AEI will publish the book in 1991.



Michael A. Ledeen, a resident scholar, was a consultant to the national security adviser to the president, to the under secretary for political affairs at the State Department, and to the Office of the Secretary of Defense from 1982 to 1986. His most recent book is *Perilous Statecraft: An Insider's Account of the Iran-Contra Affair* (Scribners, 1988). He is writing a book on the transition to democracy in Spain and Portugal.



Resident Scholar Robert A. Licht is director of AEI's Constitution Project. He is editor of *The Framers and Fundamental Rights* (AEI Press, forthcoming), the first in AEI's series of books honoring the bicentennial of the Bill of Rights. With Robert Goldwin he edited *Foreign Policy and the Constitution and The Spirit of the Constitution: Five Conversations* (both AEI Press, 1990).



China Studies

- Thomas W. Robinson, director of AEI's China Studies Program, organized a January 1991 research conference, "The Chinese and Their Future." More than 250 scholars, diplomats, and journalists attended the two-day event in Washington. AEI will publish the conference papers, edited by Mr. Robinson, later in the year.

- Mr. Robinson and Resident Scholar Joshua Muravchik organized AEI's May 1991 conference, "The Shape of a Democratic China." Participants included scholars and diplomats from the People's Republic of China, Taiwan, Hong Kong, Poland, the Soviet Union, and the United States, as well as the exiled leaders of the Tiananmen Square demonstrations of May-June 1989.

- Mr. Robinson also edited *Democracy and Development*

in East Asia: Taiwan, South Korea, and the Philippines (AEI Press, 1991) and *Asian Security* (AEI Press, forthcoming).

- AEI published *Reform in China and Other Socialist Economies* by economist Jan S. Prybyla. The book compared the state socialist systems of China, the Soviet Union, and Hungary with the market economies of countries such as Hong Kong and Taiwan.

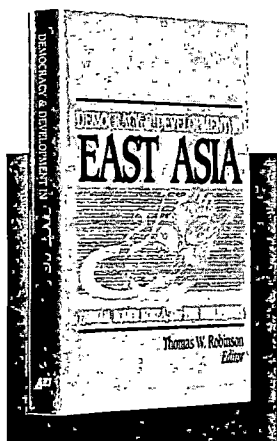
- AEI also published *A Step Toward Democracy: The December 1989 Elections in Taiwan* by Martin L. Lasater and *Slaughter of the Innocents: Coercive Birth Control in China* by John S. Aird, a study of China's efforts to limit population growth through compulsory sterilizations and forced abortions.



Thomas W. Robinson, director of AEI's China Studies Program



James C.Y. Soong, secretary general, Central Committee of the Kuomintang, Republic of China on Taiwan, at the 1990 World Forum



Chong-Pin Lin is associate director of AEI's China Studies Program and Sun Yat-sen Professor of China Studies at Georgetown University's School of Foreign Service. His research interests include Asian politics and regional security and the Chinese military.



John H. Makin, director of fiscal policy studies at AEI, writes on monetary and fiscal policy and international trade. With Norman J. Ornstein, he is writing *Debt and Taxes: Politics and Fiscal Policy in America* (AEI Press, forthcoming), a study of the politics and economics of the budget.

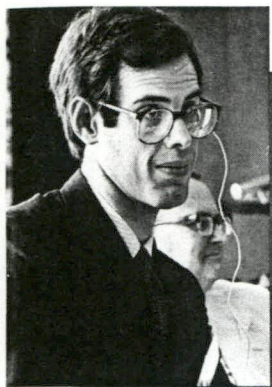


“There are no ‘problems’ to be solved in the Middle East, only deeply rooted conditions to be coped with indefinitely.”

—Irving Kristol



Regional and Development Issues



Senior Fellow Jeane J. Kirkpatrick (above left) introduces Israeli Prime Minister Yitzhak Shamir at an AEI press conference.

Visiting Scholar Nicholas N. Eberstadt (left) chairs AEI's conference comparing the Soviet and American economies.



Rep. Stephen J. Solarz (D-N.Y.) at AEI's March 1991 dinner honoring President Turgut Ozal of Turkey

• Resident Scholar Joshua Muravchik completed *Exporting Democracy: Fulfilling America's Destiny* (AEI Press, 1991), a study of the spread of democracy in other countries and the role of idealism in U.S. foreign policy.

• President of Turkey Turgut Ozal spoke on the implications of the Gulf war for NATO and regional security at an AEI dinner during his visit to Washington in March 1991.

• Senior Fellow Jeane J. Kirkpatrick, former president Gerald R. Ford, Resident Fellow Richard N. Perle, and international diplomats discussed the Iraq crisis before the outbreak of war at AEI's Annual Policy Conference in December 1990.

• Resident Scholar Constantine C. Menges wrote *The Future of Germany and the Atlantic Alliance* (AEI Press, 1991).

• Research Associate Jeffrey Gedmin wrote *The Hidden Hand: Gorbachev and the Collapse of East Germany*, a study of the behind-the-scenes diplomatic and political events that contributed to the fall of the Berlin Wall. AEI will publish the book in 1991.

• Jonas Savimbi, president of the National Union for the Total Liberation of Angola, spoke about his fifteen year struggle against the Soviet-backed Communist government of Angola and about prospects for an end to civil war at an October luncheon hosted by Mrs. Kirkpatrick.

• Scholars and journalists from Israel and the United States met in September for a conference on Arab-Israeli-Palestinian relations organized by Mrs. Kirkpatrick and Ambassador Max M. Kampelman.

• Israeli Prime Minister Yitzhak Shamir discussed the security needs of Israel at a December 1990 AEI forum following his White House meeting with President Bush.



Allan H. Meltzer is a visiting scholar at AEI and the University Professor and John M. Olin Professor of Political Economy and Public Policy at Carnegie-Mellon University. His most recent books are *Money and the Economy* (Cambridge University Press, 1991), a collection of essays written with the late Karl Brunner of the University of Rochester, and *Political Economy* (Oxford University Press, 1991).



Resident Scholar Joshua Muravchik writes on U.S. foreign policy, U.S.-Soviet relations, and Eastern Europe. His books include *Exporting Democracy: Fulfilling America's Destiny* (AEI Press, 1991) and *The Uncertain Crusade: Jimmy Carter and the Dilemmas of Human Rights Policy* (AEI Press, 1988).

Social and Political Studies

Freedom and prosperity depend on more than sound government policy: they require healthy cultural and political institutions as well. For in a free society, the people themselves are the ultimate decision makers, and their choices are strongly affected by the values, institutions, and processes that form the foundation of the American experiment.

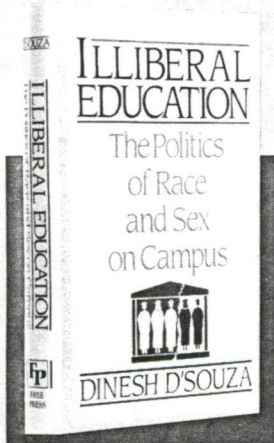
“Whatever your politics, read it.”

—Eugene D. Genovese
The New Republic

Right: Constance Horner, under secretary, Department of Health and Human Services, addresses an AEI policy seminar on child welfare.



Dinesh D'Souza, research fellow; Lynne V. Cheney, chairman, National Endowment for the Humanities; and William J. Bennett, former secretary of education, discuss the politics of race and sex on campus at an AEI forum marking the release of Mr. D'Souza's best seller, *Illiberal Education*.



Charles Murray, AEI's Bradley Fellow, studies welfare and social policy issues in the United States, Eastern Europe, and the Soviet Union. His books include *Losing Ground: American Social Policy 1950-1980* (Basic Books, 1984) and *In Pursuit: Of Happiness and Good Government* (Simon and Schuster, 1988). He is writing a book on meritocracy and democracy with Richard J. Herrnstein of Harvard University.



Michael Novak is George Frederick Jewett Scholar and director of social and political studies at AEI. He writes on religion, economics, and politics and is a frequent contributor to *Forbes*, *Crisis*, and other publications. His latest book is *This Hemisphere of Liberty: A Philosophy of the Americas* (AEI Press, 1993).



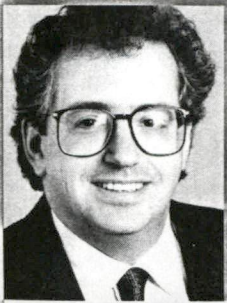
Above: Vice President Dan Quayle speaks on congressional term limitation at AEI's Annual Policy Conference.



Charles Murray, AEI's Bradley Fellow, discusses efforts to fight persistent poverty at an AEI conference.

“Part of our heritage is the intellectual revolution two centuries ago that let us understand—better than we understand today—how human society can best be constructed. In trying to help the societies of Eastern Europe and the Soviet Union, we can export no technology as valuable as that intellectual heritage and do ourselves no greater favor than to relearn it.”

—Charles Murray



Norman J. Ornstein is a resident scholar specializing in Congress, elections, and political parties. He is an election consultant to CBS News and a political contributor to the “MacNeil/Lehrer NewsHour.” Editor of and contributor to many books on American politics, Mr. Ornstein is writing *Debt and Taxes: Politics and Fiscal Policy in America* with John Makin and is working on a book on political reform.



Resident Fellow Richard N. Perle was assistant secretary of defense for international security policy from 1981 to 1987. He writes on international politics and diplomacy and U.S. defense issues for many publications. Mr. Perle is editor of *Reshaping Western Security: The United States Faces a United Europe* (AEI Press, forthcoming). He hosts a regular series of AEI defense policy seminars for Washington bureau chiefs.

Legal and Constitutional Studies



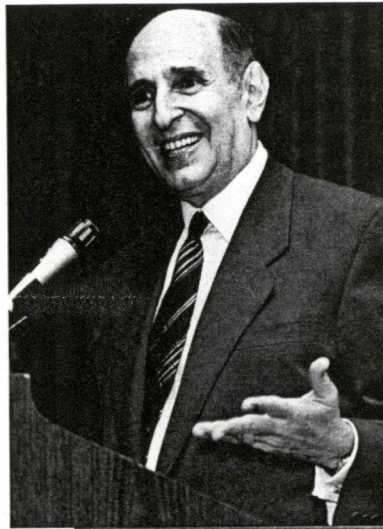
Robert H. Bork, John M. Olin
Scholar in Legal Studies, discusses
Supreme Court jurisprudence at an
AEI briefing.

- Robert H. Bork, AEI's John M. Olin Scholar in Legal Studies, began writing *The War in the Culture*, a study of the clash of radical ideas of family, race, and gender with traditional American values in contemporary religion, social life, and popular culture.

- Robert A. Licht, director of AEI's Constitution Project, organized three symposiums honoring the bicentennial of the Bill of Rights in May 1990, March 1991, and May 1991. AEI will publish papers from the sessions, edited by Mr. Licht, in 1991 and 1992.

- Resident Scholar Robert A. Goldwin continued work on his study of the drafting and ratification of the Bill of Rights.

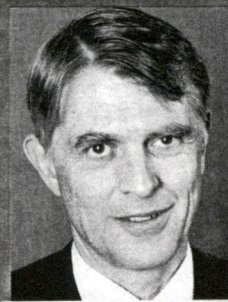
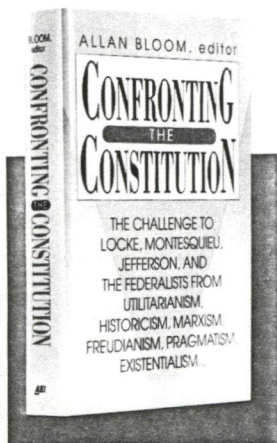
- Allan Bloom, University of Chicago political theorist, edited *Confronting the Constitution* (AEI Press, 1990), a major collection of essays responding to intellectual challenges to the U.S. Constitution from Marxism, existentialism, and other ideologies.



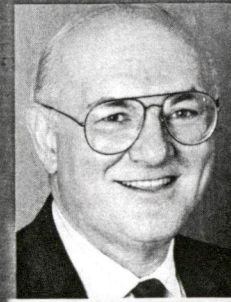
“ During 1989–1990 the Supreme Court continued to display many of the drives that have characterized its performance for the past half-century: the aggrandizement of judicial power, changes in established law to benefit favored racial groups, selective application of the free-speech clause of the First Amendment, and a reliance on abstractions at the expense of both history and contemporary reality.”

—Robert Bork

Allan Bloom, University of Chicago political theorist, speaks on politics and literature in AEI's Bradley Lecture series in April 1990.

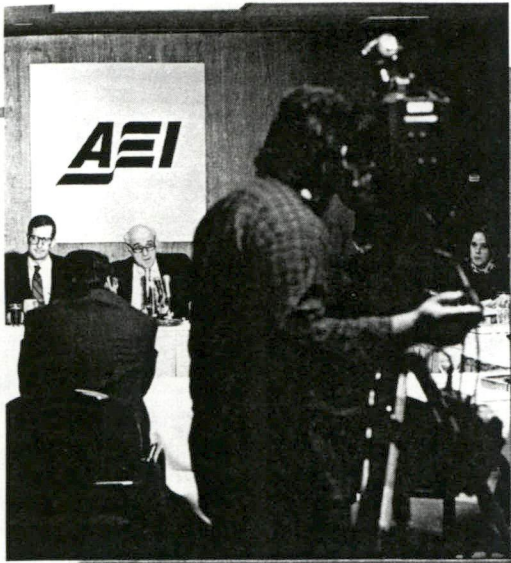


Thomas W. Robinson, a resident scholar, is director of AEI's China Studies Program. He is the editor of *Democracy and Development in East Asia* (AEI Press, 1991) and *Asian Security* (AEI Press, forthcoming). Before coming to AEI, Mr. Robinson was a professor of China studies, government, and national security at Georgetown University.



Resident Fellow William Schneider is a contributing editor of *National Journal*, *The Atlantic Monthly*, and the *Los Angeles Times*, and writes on American politics, elections, and public opinion. He is completing a book about the transformation of American politics from 1964 to the present.

C-SPAN camera focuses on Senior Fellow Ben J. Wattenberg (at right) and Executive Vice President David Gerson at an AEI seminar marking the release of Mr. Wattenberg's book, *The First Universal Nation*.



AEI President Christopher C. DeMuth, Resident Scholar Norman J. Ornstein, and Resident Fellow William Schneider debate proposals to limit congressional terms at AEI's Annual Policy Conference.

Political Studies

- Senior Fellow Ben J. Wattenberg completed *The First Universal Nation* (Free Press, 1990), a study of America's unique role as the world's only remaining superpower.

- Norman J. Ornstein, Claude E. Barfield, and other AEI scholars participated in a seminar for newly elected members of Congress held every other year in Williamsburg, Virginia.

- Suzanne Garment, AEI's DeWitt Wallace Fellow, completed *Scandal Time*, a study of the politics of Washington scandals. Random House will publish the book in 1991.

- Vice President Dan Quayle and AEI President Christopher C. DeMuth debated proposals to amend the Constitution to limit congressional terms with AEI political scientists Norman J. Ornstein and William Schneider at AEI's Annual Policy Conference in December.

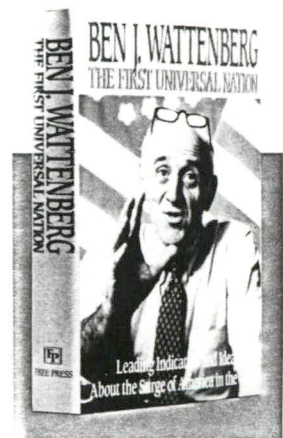
- William A. Schambra, former codirector of AEI's Constitution Project, edited a volume of essays on American government by the late Martin Diamond. AEI will publish the book, *As Far As Republican Principles Will Admit*, in 1991.



Bernard Schriever, retired U.S. Air Force general, joined AEI in 1990 as a visiting fellow in defense and security studies. His research interests include defense policy, military intelligence, and the commercial application of new technologies.



Herbert Stein, a senior fellow, was a member of the President's Council of Economic Advisers from 1969 to 1971 and was chairman from 1972 to 1974. He is a member of the board of contributors of the *Wall Street Journal* and author of "The Washington Economist" column in AEI's magazine, *The American Enterprise*. AEI published a revised edition of his book, *The Fiscal Revolution in America*, in 1990, and will publish his new book on the condition of the U.S. economy in 1991.



Social and Individual Responsibility

- Resident Scholar Douglas J. Besharov wrote *Recognizing Child Abuse: A Guide for the Concerned* (Free Press, 1990). His monograph, *Combating Child Abuse* (AEI Press, 1990), was distributed to police departments and child welfare agencies nationwide.

- Mr. Besharov also edited *Family Violence: Research and Public Policy Issues* (AEI Press, 1990), a conference volume in which scholars and federal officials examined family violence and assessed the quality of research about it.

- AEI's February 1991 conference, "Child Welfare Reform Experiments," organized by Mr. Besharov, evaluated demonstration projects on child welfare and family preservation.

Conference participants included congressional staff, scholars, government officials, and child service agency personnel.

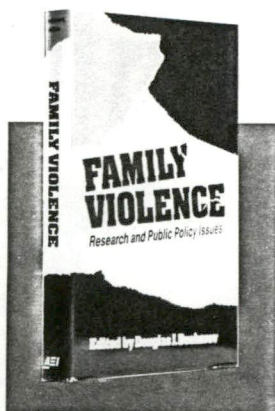
- Political scientist Charles Murray joined AEI as Bradley Fellow in September 1990 to write on welfare and social policy in the United States, the Soviet Union, and Eastern Europe.

- Secretary of Health and Human Services Louis Sullivan, Secretary of Housing and Urban Development Jack Kemp, and other social policy experts discussed "Ways Out of Poverty" at AEI's Annual Policy Conference in December.



Top: Louis Sullivan, secretary of health and human services, at AEI's Annual Policy Conference.

Above: Resident Scholar Douglas J. Besharov, right, discusses child welfare policy with a seminar participant.



Resident Fellow Irwin Stelzer writes on domestic and international regulatory issues and financial markets. He has taught at Cornell University, the University of Connecticut, and New York University. Mr. Stelzer is an economic and political columnist for the *Sunday Times* of London and the *Boston Herald*.



W. Allen Wallis, a resident scholar, studies economic policy and international trade. He served as under secretary of state for economic and agricultural affairs from 1982 to 1989 and was chancellor of the University of Rochester from 1962 to 1982. Mr. Wallis is the author of numerous books and articles on economics, statistics, and higher education.

Religion and Philosophy



Michael Novak, George Frederick Jewett Scholar, is director of social and political studies at AEI.

“Many of the same people who want us to send more dollars to Washington to feed the welfare state admire Eastern Europe’s welfare state. In both places they fail to see how big government corrupts.”

—Michael Novak

- Michael Novak, director of social and political studies at AEI, wrote *This Hemisphere of Liberty: A Philosophy of the Americas* (AEI Press, 1990), an application of Catholic social thought to the problems of poverty and political instability in Latin America.

- Mr. Novak also wrote *How to Make a Republic Work*, a collection of lectures on the American Founding. AEI will publish the book in 1991.

- AEI published a revised edition of *Toward a Theology of the Corporation*, Mr. Novak’s 1981 essay on democratic capitalism and the moral underpinnings of American business.

- Research Fellow Dinesh D’Souza completed *Illiberal*

Education: The Politics of Race and Sex on Campus (Free Press, 1991), a study of current controversies over preferential admissions, faculty hiring, and curriculum revision at American universities.

- Mr. Novak organized a monthly series of seminars on religion and economics at AEI. Topics covered included the role of labor unions in market economics, the origin of modern rights theory, social justice in the market economy, and Catholic social teaching on cities.

“An extremely valuable contribution to the ongoing search for authentic progress in this hemisphere.”

—Robert Sirico

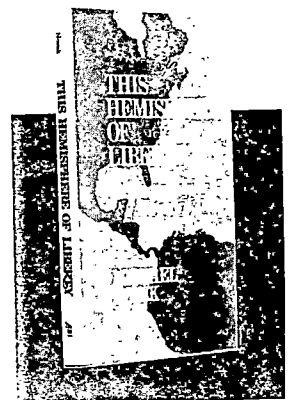
Wall Street Journal



Senior Fellow Ben J. Wattenberg writes on politics, public opinion, and foreign affairs. His study of demographic and social change in the United States, *The Rise of the Liberal Nation*, was published by the Free Press in 1990. Mr. Wattenberg’s current work is concerned with the appeal of American culture around the globe.



Carolyn J. Weaver, a resident scholar, is director of AEI’s Social Security and Pension Project. She is editor of *Social Security’s Looming Surpluses* (AEI Press, 1991) and of *Disability and Work Incentive, Rights, and Opportunities* (AEI Press, forthcoming), and is writing a book on social security and the economics of retirement.



OUTREACH

AEI research is intended to inform policy debates on current issues of domestic and international concern. To ensure that AEI's best work is known by, and available to, those who make or influence public policy, the Institute each year publishes books, monographs, and magazines and sponsors scores of conferences, lectures, and seminars.

AEI scholars appear frequently before congressional committees and on television and radio and publish widely in the national media. They consult with government officials, speak to business groups, lecture on college campuses, and still find time to publish hundreds of articles in scholarly journals, opinion magazines, and newspapers.

On virtually every major issue of the day, AEI research contributes to sound and informed decision making.



Above: Resident Fellow Karlyn H. Keene, editor of The American Enterprise, interprets public opinion poll data at the 1990 World Forum. At right is AEI Trustee Vinton M. Blount.

Below: AEI researchers publish articles and reviews in leading scholarly journals, including those pictured here.

Political Science Quarterly

JOURNAL OF LABOR RESEARCH

VOLUME X, N

Universities and the Military



The Annals

THE WORLD ECONOMY

VOLUME 12 NUMBER 4

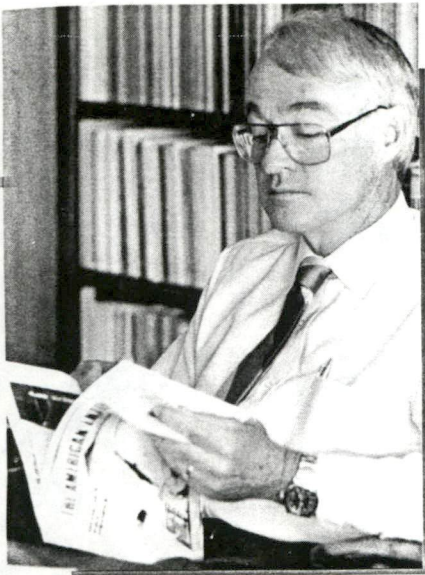
THE WASHINGTON QUARTERLY

VOLUME 12

American Political Science Review

FOREIGN AFFAIRS

America and the W



James Q. Wilson, chairman of AEI's Council of Academic Advisers, reviews a recent issue of *The American Enterprise*.

The American Enterprise

AEI's bimonthly magazine, *The American Enterprise*, is edited by Resident Fellow Karlyn H. Keene. Its unique combination of serious policy articles and stunning graphics won the magazine a national award for design excellence in 1990, its first year of publication.

The scope of *The American Enterprise* is as broad as that of AEI itself. Recent issues featured articles on education strategies for the 1990s, presi-

dential veto power, the future of China, women and wages, insider trading, health care costs, U.S. competitiveness, mental illness and the homeless, and U.S.-Soviet relations.

Each issue also includes Senior Fellow Herbert Stein's column, "The Washington Economist" and "Public Opinion and Demographic Report," a twenty-four page section of current poll data compiled by Ms. Keene and Everett Carl Ladd of the Roper Center for Public Opinion Research.

Joining AEI scholars as contributors to *The American Enterprise* are journalists and policy experts from around the world. In recent months they included Robert Shogan, *Los Angeles Times* political reporter; Frank H. Easterbrook, U.S. Court of Appeals judge; Aaron Wildavsky, University of California at Berkeley political scientist; and Kenneth W. Dam, IBM Corporation vice president.

AEI's bimonthly magazine, *The American Enterprise*, won a national award for design excellence in its first year of publication.



AEI Press

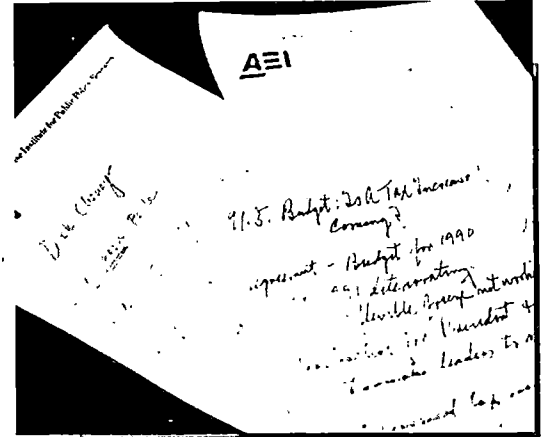
The past year was a busy and productive one for AEI's book publishing program, the AEI Press. New books from senior scholars Jeane Kirkpatrick and Michael Novak, a revised edition of Herbert Stein's classic *Fiscal Revolution in America*, and the final two volumes in AEI's series *A Decade of Study of the Constitution* joined hundreds of other titles on economics, foreign affairs, and domestic public policy in the crowded pages of AEI's book catalog.

The AEI Press published seventeen books in 1990 and another twelve in the early months of 1991 — with at least a dozen more to come through the end of the year. And although AEI's books are written primarily to address contemporary policy concerns, some titles — such as Michael Novak's 1981 essay *Toward a Theology of the Corporation* — were

reprinted in 1990 to meet continuing demand.

AEI also strengthened its relationship with other university and trade presses that publish books by its scholars. The Free Press in New York published books by Douglas Besharov, Ben Wattenberg, and Allan Gerson, as well as Dinesh D'Souza's bestselling *Illiberal Education: The Politics of Race and Sex on Campus*. Both Oxford and Cambridge University Presses published books by Allan Meltzer.

AEI's own publishing partner, University Press of America, markets the Institute's books through promotional mailings to scholars and professionals and book displays at academic conferences. Selected AEI titles are also sold through bookstores, including the major national chains, through the National Book Network, UPA's subsidiary.



Whether in college classrooms, congressional offices, or Washington news bureaus, AEI's books are helping to shape the debate on the key issues of the day.



AEI completed its ten-volume series of essays honoring the bicentennial of the Constitution with the publication of *Foreign Policy and the Constitution* and *The Spirit of the Constitution: Five Conversations*, edited by Robert A. Goldwin and Robert A. Licht.



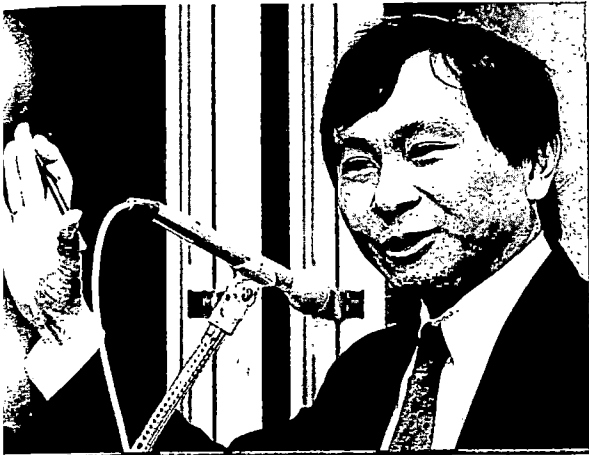
Elaine L. Chao, deputy secretary of transportation, at AEI's February 1990 conference, "Infrastructure Needs and Policy Options"

Conferences

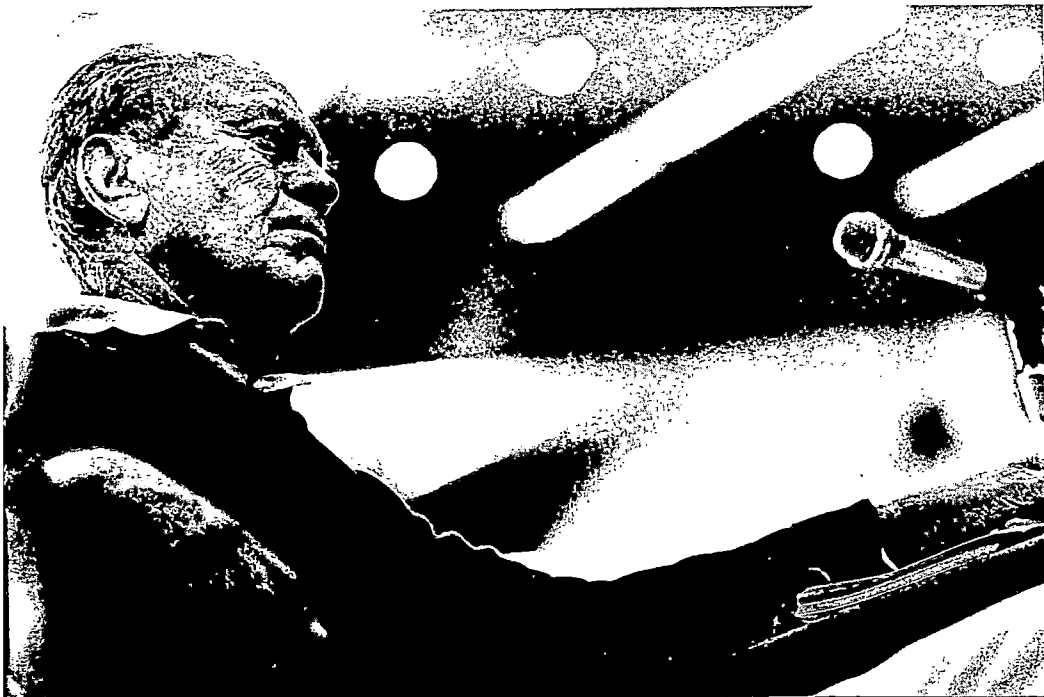
AEI sponsors dozens of conferences, seminars, and lectures throughout the year. Scholars, journalists, business executives, and government officials participate in events designed to promote the serious exchange of ideas and to enhance the understanding of complex issues. Research papers presented at these conferences are often published in AEI books. Frequent C-SPAN, CNN, and other television coverage of AEI events brings them to large audiences beyond the Washington Beltway.

Each December AEI sponsors its Annual Policy Conference on major domestic and international issues. The 1990 conference included a historic gathering of all nine of the living former chairmen of the Council of Academic Advisers, with current chairman Michael J. Boskin, for a discussion of White House economic policy making; a debate on congressional term limitation featuring Vice President Dan Quayle; a review of ways to fight persistent poverty; and an analysis of the events that one month later would lead to war in the Persian Gulf.

Thomas Sowell, Hoover Institution economist, received AEI's 1990 Francis Boyer Award at the Institute's Annual Dinner. At the black-tie affair members of Congress and the cabinet, senior government officials,



Francis Fukuyama, author of The End of History, discusses the East European revolutions of 1989 at AEI's Bradley Lecture series.



Left: Gerald R. Ford, former president and AEI distinguished fellow, chairs the 1990 World Forum.



business representatives, and other invited guests joined AEI scholars and trustees to hear Mr. Sowell's wide-ranging lecture, "Cultural Diversity: A World View," later published in the May/June 1991 issue of *The American Enterprise*. The Francis Boyer Award is presented each year to a scholar, a current or former public official, or a business leader for outstanding accomplishment in serving the public interest.

The AEI World Forum, a three-day conference for chief executives of major international corporations, is held each June in Beaver Creek, Colorado. Gerald R. Ford, former president and a distinguished fellow at AEI, hosts the event, which features discussions on international trade and economics, national security, and social and political issues led by current and former senior government officials and AEI scholars.

Election Watch, AEI's seminar series for Washington business executives, meets monthly during national election years for off-the-record discussions of polls, politics, and policy. AEI's resident election experts are joined by party leaders, campaign officials, and political journalists at the sessions.

In January 1991, scholars from AEI, the Brookings Institution, and the

Congressional Research Service met with nearly two dozen newly elected members of Congress in Williamsburg, Virginia, for the New Members Seminar, devoted to domestic and foreign policy issues facing Congress.

AEI's monthly Bradley Lecture Series, now in its second year, features talks by some of the nation's most accomplished writers and scholars. Their presentations in fields such as literature, philosophy, culture, and religion add a new dimension to the policy debates of workaday Washington.

“Cultural diversity, viewed internationally and historically, is not a static picture of differentness but a dynamic picture of competition in which what serves human purposes more effectively survives while what does not tends to decline or disappear.”

—Thomas Sowell



Syndicated columnist George F. Will speaks at an AEI seminar for business executives organized by Resident Scholar Michael A. Ledeen.



Thomas Sowell, Hoover Institution senior fellow, delivers the Francis Boyer Lecture, entitled "Cultural Diversity: A World View," at AEI's 1990 Annual Dinner.

Media Relations



Above: Senior Fellow Ben J. Wattenberg (seated) prepares to tape an episode of his new PBS series, "Wattenberg: Trends in the 1990s."

AEI scholars write not only for readers of academic books and professional journals — they also write for general readers in leading national newspapers and magazines and appear regularly on television and radio programs.

Jeane Kirkpatrick, Ben Wattenberg, Allan Meltzer, Richard Perle, and Irwin Stelzer prepare regular news analyses for the *New York Times*, *Washington Post*, *Los Angeles Times*, *U.S. News and World Report*, *Sunday Times* of London, and national newspaper syndicates.

Irving Kristol and Herbert Stein appear monthly in the *Wall Street Journal* and are members of its board of contributors.

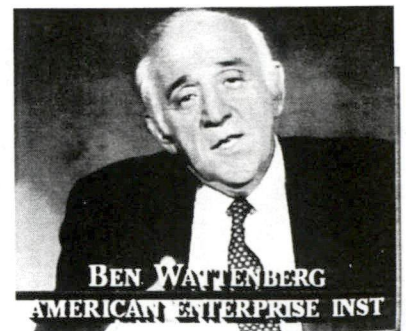
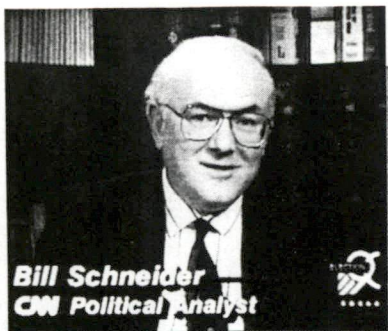
Michael Novak's column, "The Larger Context," appears in each issue of *Forbes*, and William Schneider's political column appears weekly in *National Journal*.

Robert Bork, Joshua Muravchik, Mark Falcoff, Dinesh D'Souza, Michael Ledeen, and others contribute frequently to widely read opinion journals such as *The Public Interest*, *The Atlantic Monthly*, *Commentary*, *National Review*, *The New Republic*, *The National Interest*, and *The American Spectator*.

AEI conferences are often transmitted by C-SPAN to viewers nationwide. Several AEI scholars, such as Norman Ornstein, Ben Wattenberg, William Schneider, and Jeane Kirkpatrick, are regular guests on network news broadcasts and public affairs discussion programs.

Every two weeks a selection of current articles by AEI scholars is distributed directly to a national audience of public officials, business leaders, and journalists through the Institute's *AEI on the Issues* reprint series.

Below: AEI political experts (left to right) William Schneider, Karlyn Keene, and Ben J. Wattenberg analyze the 1990 election results on Election Day network news broadcasts.



FINANCES



Executive Vice President David Gerson reviews AEI finances at a Board of Trustees meeting.

A EI enjoyed the best financial performance in its history in 1990. The general (nonendowment) fund balance showed an improvement of more than \$1.3 million, with revenues of \$11.5 million and expenses of \$10.2 million. Also reflecting an improvement of more than \$1.1 million in the endowment fund balance, total revenues exceeded expenses by almost \$2.5 million.

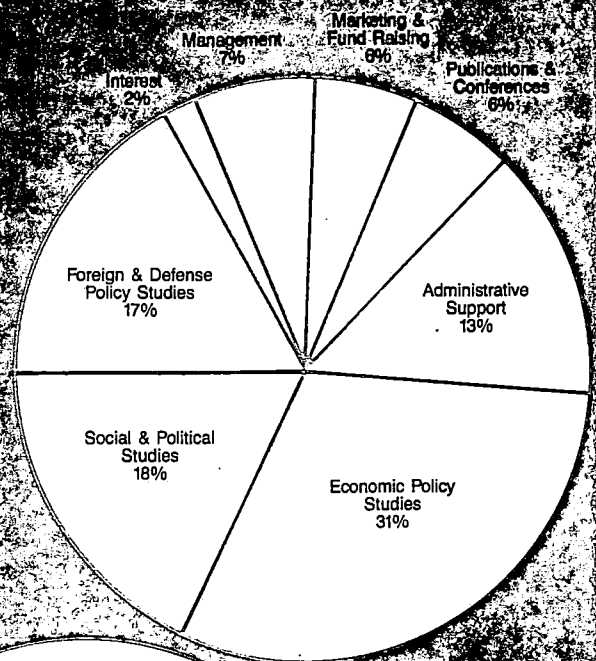
General revenues increased by nearly \$1.5 million over the previous year. Foundation revenue contributed 55 percent of the total increase — rising by more than \$800,000 — and corporate revenue went up 7 percent. Individual contributions were up 48 percent, topping \$1 million for the first time in many years.

Expenditures for research activities increased by 20 percent to \$10.2 million. All but 10 percent of the expenditure was attributed to

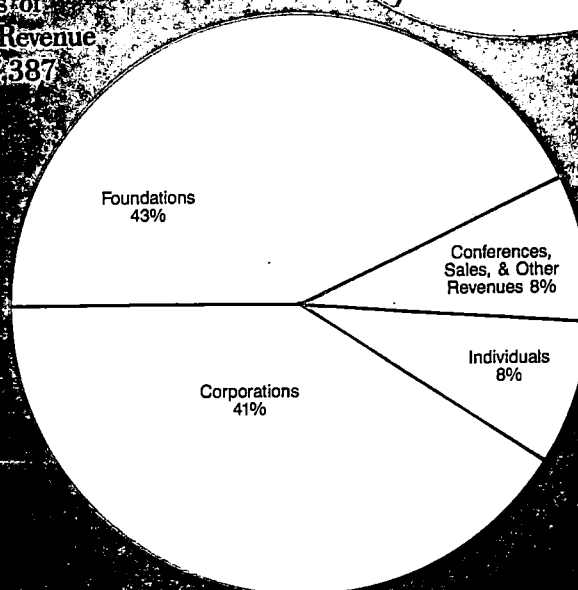
expanded economic policy research. Over the past four years AEI's administrative expenses have declined slightly while our research expenditures have increased by 72 percent.

We are encouraged with the progress represented in this financial report. And we are grateful to our many supporters who made our research, conferences, and publications possible.

**1990 AEI Expenses
\$10,150,247**



**Sources of
1990 AEI Revenue
\$12,607,337**



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For Immediate Release

December 4, 1991

REMARKS BY THE PRESIDENT
TO THE AMERICAN ENTERPRISE INSTITUTE ANNUAL POLICY CONFERENCE

The Willard Hotel
Washington, DC

12:53 P.M. EST

THE PRESIDENT: Thank you all very, very much. And, Chris, thank you for that warm introduction. And let me also single out my tennis opponent the other day, Paul Orrefice, your Chairman, and thank him for his service to this outstanding institution, which I was privileged to serve in a brief period of time back in the '70s. And I want to say how pleased I am that Nick Brady, our Secretary of the Treasury is with us today.

And then finally, to salute Irving Kristol, honored by AEI with this year's Francis Boyer Award. He's out here somewhere, and it hasn't been actually handed to him, but I'm told I'm not blowing the cover by -- here he is over here. Irving, congratulations, sir. (Applause.) And our gratitude for the abundance of insight that you bring to the study of American politics, the American system, and, indeed, American society. Irving has devoted so much of his effort the past three decades to making the world safe for democratic capitalism. That message now opens new worlds from Moscow to Warsaw. And I just wish we could say the same thing of Washington, D.C. (Laughter.)

Irving also runs one of America's most formidable one-man talent agencies. Not only his own son, Bill, who so ably serves this administration, but legions of proteges in every corner of the political and intellectual worlds open doors by saying, "Irving sent me." (Laughter.)

And I am pleased to -- very pleased -- when Chris invited me over here to have this chance to speak to all of you today. For me, AEI epitomizes something quintessentially American -- the engaged intellectual. And Chris referred to this, but many of you have served in government -- and lived to tell about it. (Laughter.)

AEI encourages the ideal of the citizen-scholar -- a kind of modern-day Cincinnatus: ready to answer your country's call, and when your work is done -- content to return to your word processors.

For the past three years you have been, and, again, Chris alluded to this, very gracious in offering me advice on all manners of issues. And I thank you for your support -- and, yes, for what I'll call your constructive criticism.

In the short space of those three years, we've seen our world literally transformed. The collapse of communism, the Cold War's end, the triumph of the democratic idea: each epoch-making event swept away the challenges, the conflicts, that defined the world we knew. Each opened up a new era -- a new world of possibilities.

And as I've said before, the Cold War was -- in its decisive aspect -- a war of ideas, a clash between two systems speaking to the deepest dreams and desires of man. And that battle was won by Western ideals. And the fact that in the nations of the old Warsaw Pact and even within the Soviet Union, free governments and free markets are now taking root, stands as a tribute to the ideas and ideals that guide this institution -- guide AEI.

Our new era brings with it a need for new guideposts for solutions and approaches that keep pace with the times. The fact that at long last we celebrate a world transformed inevitably means change here at home.

Right now, the focus here in Washington and across our country is on the economy. Yesterday I was in Bradenton, Florida, and then we flew over to Meridian, Mississippi, meeting with working Americans, listening to what's on their minds -- the same way I've tried to listen to people across America -- 48 states, as a matter of fact -- I've been to 48 states to be exact over the three years. And these are tough times we're in. And many Americans are worried. And they're looking for a sign from Washington that someone cares, understands what's happening. And I hope I've made clear that I do.

These people won't feel comforted by a weighty discourse on the difficulties of divided government. They know that whatever the Leading Economic Indicators might say, for a person who's lost the job, the unemployment rate is 100 percent. And they are impatient, tired of excuses. They want action, and they can't understand the political gridlock that too often paralyzes Washington, D.C.

But government and governing requires more than action for action's sake. You see, too many in Congress make the easy assumption that when polls tell us about dissatisfaction with Washington -- it means they want government to do more, take more power to itself. But that notion simply does not square with my sense of what people want. Yes, the American people want government to act -- but not to build new centralized bureaucracies or create more red tape. Across America, we see a demand for greater freedom of action. A public weary of mandates, regulations and taxes, that public wants to reverse the flow of government power -- to restore authority to the people.

In the political and social sphere, this new demand for freedom of action means policies that enhance the power of the individual and strengthen the family. You can see those ideas translated into action in this administration's stand against quotas and for real equality of opportunity; in our child care bill, a victory against the forces that saw this issue as a chance to build a brave new child care bureaucracy. You can see it in our HOPE program's emphasis on turning tenants into home owners -- and, indeed, in education where choice is an essential part of our America 2000 strategy.

Take a look at that strategy. What worries our critics -- the defenders of the status quo in the education establishment -- isn't that our plan won't work. They worry that it will work. They know that choice, competition and community involvement are revolutionary concepts -- capable of literally reinventing the American school. But that's what we want to do. That's what we're trying to do. That's what we must do.

In the economic sphere, the demand for freedom of action means policies that promote market-based solutions: The kind we fought for in the amendments to the Clean Air Act, and built into our energy strategy.

Let me focus in more detail about what this means given our current economic situation. No one should be complacent about the sluggish economy or stubborn unemployment rates. But we must not discount the fundamentals -- the underlying factors that propel our economy toward growth.

From the first, we've built our long-term growth strategy on several key elements: unleashing capital and reducing tax burdens; keeping inflation in check -- and interests rates down.

Second, we recognize the need to keep American business competitive: to slash red tape and regulations wherever possible, draw the line against government mandates that handcuff the American entrepreneur.

Chris DeMuth and Irving's son, Bill -- Bill Kristol -- with his involvement in the Competitiveness Council and Chris's past experience in doing a superb job on deregulation -- they both can tell you stories that will make your hair curl. True competitiveness includes also real tort reform -- capping these crippling sky's-the-limit liability awards, which exert such a strong chilling effect on entrepreneurs ready to bring new products to market.

Third, as a nation, we've got to make good on our commitment to quality education and job training, to ensure a workforce ready for the challenges a new century will bring.

Fourth, we've got to control the deficit. The American people need to understand that right now we spend \$286 billion dollars a year -- that's three-quarters of a billion dollars a day -- just to pay interest on the national debt. We've got to try to hold spending down -- and avoid driving interest rates up again.

And finally, we've got to make certain American businesses compete on an equal footing -- and that means a government committed to the principles of free and fair trade. We've fought to advance those principles from the EC to East Asia -- in the Uruguay Round and with our promising Enterprise for the Americas Initiatives.

We feel the benefits of foreign trade right here at home. Each additional billion dollars in manufactured goods and trade means another 20,000 American jobs. And yet in spite of the fact that last year alone, total gross exports accounted for virtually all of this nation's economic growth -- a new breed of isolationists seem to think domestic policy ends at the water's edge.

Well, thank God they weren't around back in 1492 -- imagine the hard time they'd have given Columbus. Voices on the right and left are working right now to breathe life into those old flat-Earth theories of protectionism, of isolationism. But there is no going back. Our new world is far smaller, communications far more instant. Our horizons stretch much farther with each generation. This is 1991 -- not 1791; a horse-and-buggy attitude won't carry us into the next century.

On certain issues -- many in the foreign policy sphere -- the President possesses all the authority he needs to advance an ambitious agenda. But there are things no President can do unilaterally -- times when the need for action finds the President and Congress pulling in different directions. I don't approach the problem of divided government as a political scientist. The ideal solution, in my view, to divided government remains a government united in pursuit of the public good. In other words, to be candid, my preferred solution to divided government is a Republican Congress. (Applause.) In the meanwhile, I'm going to keep pushing Congress --

about this economy -- reaching out when I can, giving a kinder and gentler poke now and again when necessary -- to get up with Congress to work with me to get the job done.

I called on Congress to join me in responsible action -- I think history will show this to be an accurate statement -- long before our economy began to struggle. I said back in 1989 -- during the longest peacetime recovery on record -- that America could not rest easy, that we needed to look to the long-term, put in place policies that would sustain growth and would create jobs. And I offered then the first of three economic growth packages. Three sessions of Congress have come and gone, and everyone knows the result: precious little action.

Every one of the economic proposals that I've sent up to Capitol Hill serves the single standard of generating growth -- and that includes, yes, the capital gains tax cut that my opponents have labeled as controversial. My opponents like to treat capital gains as a code word for class warfare -- even at the very same time they're learning to pay lip service to a concept called competitiveness. And I wonder seriously whether they realize the United States is saddled with capital gains tax rates far higher than our key international competitors? Germany -- take a look at Germany: zero percent. No capital gains tax at all on assets held longer than six months. Or Japan. An entrepreneur who sells the company he's built from scratch pays a tax of one percent. And it's time we see and understand that higher costs for capital cripple competitiveness -- and cost American jobs. (Applause.)

When I deliver the next State of the Union message -- when I deliver my State of the Union message in January, I will go to Congress with a new action program, and I'll call on Congress to set aside politics -- I know we're in an election year then --and focus on the public interest. And I'll challenge them to enact a common-sense set of economic reforms. And if we do our work promptly -- and we can; Congress can act fast when they want to -- we'll still have plenty of time left in 1992 for partisan politics.

In the meantime, there is a great deal we can do in the Executive Branch to foster economic growth without waiting for Congress to act. And we're going to continue doing all we can to drive down barriers to trade, open foreign markets to American goods. We will seek ways to lift the burden of federal regulation without compromising public health or safety. And as I said Monday, we will move quickly to implement the job-intensive transportation bill that has just been passed. And I have ordered federal agencies to review the effectiveness of a full range of programs -- from small business loans to job placement, job training, to the process for getting unemployment checks out to the workers and families waiting for them. None of these actions can substitute for effective Congressional action, but each can help move the economy along.

So let me repeat. We have had a comprehensive economic growth strategy from the beginning, encompassing every aspect of policy: deficit reduction to lower interest rates; tax incentives to spur saving and entrepreneurship; regulatory reform; increased and more efficient investment in our public infrastructure; education reform to enhance America's human capital; tort reform to ease the costly litigation that saps the very productivity of this country; and banking reform to make our financial system safer and more internationally competitive -- and a trade policy aimed at opening the new markets that mean more American jobs.

I'm confident that we can act to advance America's interests -- and I'm absolutely certain we must, because our world demands it. I'm confident because I remain convinced America's fundamentals are sound -- not just the economic indicators that I mentioned a few moments ago, but the broad fundamentals that sustain American society: faith and family. The feeling of fellowship that leads millions of Americans to help neighbors in need -- without

looking to Washington for guidance. And of course, the cornerstone of our American idea -- the bedrock belief in freedom that led us from Valley Forge to Desert Storm to the new world now unfolding around us.

Look out on the horizon to the America the entire world now looks to for leadership. It is our country. To the America that exalts enterprise and sweat -- the hands that work and the unlimited power of the human mind. To the America whose very name means freedom for millions around the world. That America possesses a power that does not owe its strength to government. Its power begins and ends in the living example of its people.

Once again, I thank all of you for this opportunity to speak before your most prestigious board, your wonderful organization, and may God bless the United States of America. Thank you very much. (Applause.)

END

1:14 P.M. EST



Department of Energy
Washington, DC 20585

Facsimile Cover Sheet
for
The Office of Policy, Planning and Analysis

Date: 12/3

To: Teresa Goeman / Jeanie Button

Organization: _____

Phone/Fax Number: _____ 456-6218

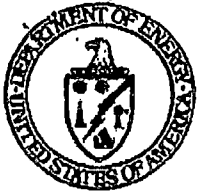
From: Susan Cobb

Subject/Comments:

Sorey I don't have the final, signed letter --
However, this should be helpful. If
you have any questions, please call.

This fax contains 4 pages, including this cover. If you did
not receive all of the pages or if illegible, please phone

_____ at (202) 586-5316



The Deputy Secretary of Energy
Washington, DC 20585

*Needs
page numbers
and needs
change on
p. 2*

The Honorable Malcolm Wallop
United States Senator
Washington, D.C. 20510

Dear Senator Wallop:

In February 1991, the President released the National Energy Strategy (NES) which contains over 100 initiatives to improve energy security, increase economic growth and enhance environmental quality. Successful implementation of the NES is a shared responsibility that involves action by the Executive Branch, Congress, State and local governments and the public. The President submitted comprehensive energy legislation to the Congress in March 1991. A comprehensive and balanced bill, S. 1220, was approved 17-3 by the Senate Energy Committee in May. The Administration strongly encourages expeditious consideration of S. 1220.

While working with Congress on passage of acceptable legislation, the Administration has been implementing aggressively its portion of this important domestic initiative. I want to share with you some examples of the significant actions we have taken.

- The President issued an Executive Order on Federal energy management, on April 17, 1991, that directs all Federal agencies to reduce overall energy consumption in Federal buildings by 20 percent by the year 2000 and fuel consumption in Federal vehicles by 10 percent by 1995. These conservation measures will save American taxpayers an estimated \$800 million in annual energy costs and cut Federal energy consumption by about 100,000 barrels per day of oil equivalent by the year 2000.
- The President, on October 25, 1991, announced a cooperative agreement between the Department of Energy and the big three domestic auto manufacturers to develop a new generation of batteries to make electric vehicles competitive by the year 2000. This jointly-funded, four year, \$260 million research project, the first of its kind between government and the auto industry, will promote U.S. international competitiveness, economic growth and job creation. This effort demonstrates the Administration's commitment to diversify transportation fuels, reduce air pollution, and advance U.S. technology.

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- The President, on September 16, 1991, designated the Solar Energy Research Institute (SERI) as a National Laboratory. The dedication of the National Renewable Energy Laboratory illustrates the Bush Administration's commitment to research and development of renewable energy technologies. In the last two years, funding for research and development of renewable energy technologies has increased by ~~18~~ percent.
- The President's FY 1992 budget request, reflecting NES priorities, included \$495 million for conservation and renewable technologies -- a 58 percent increase over the FY 1989 level, when this Administration took office.
- The Department of Energy has signed a joint statement with the Commission of the European Communities to collaborate on the development of a methodology to assess the full costs of fuel cycles.
- DOE issued a final rule on test procedures for florescent light ballasts as well as a final rule on energy efficiency standards for washers, dryers and major appliances.
- FERC issued new regulations to improve licensing procedures for expanding capacity at existing hydropower sites.
- FERC also approved a rule to speed construction of natural gas pipelines and issued a Notice of Proposed Rulemaking ("Mega-NOPR") on natural gas pipeline regulation issues.
- IRS issued a ruling clarifying that utility discounts or non-refundable credits for customer efficiency investments are non-taxable income to the recipient.
- IRS also issued a proposed rule to increase the non-taxable limit on employer-provided benefits for the use of public transit from \$15 per month to \$21 per month, the maximum amount allowable under current law.

Implementation of the NES will boost the U.S. economy and create new jobs. The Department of Energy and Data Resources Inc. project that full implementation of the NES, including enactment of comprehensive, balanced legislation like S. 1220, would add more than 300,000 U.S. jobs in 2000 and increase the real Gross National Product by more than \$550 billion through the year 2010. NES implementation will also substantially reduce the vulnerability of our economy to costly future oil supply disruptions and price shocks, while saving over \$85 billion in payments to foreign oil producers and governments in 2010.

Wolf - 8:15 mtg.

We will continue to implement aggressively the Administration's component of the NES. We have made significant progress and fully expect that the coming year will show substantial additional achievements in providing for all Americans a secure, clean and affordable energy future. I hope Congress will be equally successful in implementing those elements of the NES requiring legislative action.

With kindest personal regards, I remain

Sincerely yours,

W. Henson Moore