

THE HERITAGE FOUNDATION 2010 ANNUAL REPORT

*Solutions for America*



  
The Heritage Foundation  
LEADERSHIP FOR AMERICA

# *Leadership for America*

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*To formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values and a strong national defense.*

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# *Solutions for America*

Building an America where

*Freedom,*

*Opportunity,*

*Prosperity, and*

*Civil Society*

*Flourish*



# “A Time *for* Choosing”

Historians may well characterize 2010 as just that.



Photo: iStock Photo

## Message from the Chairman and the President

Throughout the year, Washington’s liberals made choices that dumbfounded most Americans. First there was a monstrous 2,000-page health “reform” bill. In poll after poll, the people registered their disapproval. Yet House Speaker Nancy Pelosi insisted on passing it. Her through-the-looking-glass logic: “We have to pass the bill, so that you can find out what is in it.”

She rammed the bill through the House without a single Republican vote. As Main Street Americans choked on Washington’s blatant power grab, the liberal commentariat exulted. ObamaCare created “a huge structural change in the relationship between the public, the economy, and the government,” crowed journalist William Saletan. Unfortunately, he was right.

Meanwhile, the U.S. economy continued to hemorrhage jobs, making a mockery of White House claims that its \$800 billion “stimulus” had “created or saved” nearly 2 million jobs in 2009. By mid-2010, the Bureau of Labor Statistics reported that the ranks of the jobless had swelled by more than 2.2 million since January.

But Washington’s liberals were working overtime: imposing the largest-ever increase in costly regulations, piling up unprecedented debt (to \$14 *trillion* total, with \$1 trillion of that racked up in just the last *nine months* of 2010) and plumping for job-killing tax hikes that could only make the sick economy sicker.

On the global scene, the Administration “engaged” our enemies while hectoring longtime friends. All the while, our defenses continued to wear out faster than they were being replaced, much less modernized. Unperturbed,

the White House gutted our missile defense program, then negotiated a deeply flawed nuclear arms treaty with Russia.

These choices left the American people fuming... and brewing tea. Surveys found up to 85 percent said the country was on the wrong track; 58 percent supported repeal of ObamaCare; three-fourths said the stimulus spending was money wasted. If the Left could make choices that affected their lives, so could they.

Anchored on the bedrock principle of constitutionally limited government, the Tea Party movement spread like wildfire. TeaPartyPatriots.org listed more than 2,800 Tea Party organizations across America by year’s end.

The nation was choosing sides. It was the elite political class vs. Middle Americans, and the latter were determined to choose a better course for their country. In November, “We, the People”



trounced “We, your Betters”—casting out liberals not just from Congress, but in even greater numbers from statehouses and state legislatures. It was the greatest political rout in at least seven decades.

It was also a magnificent victory for conservative values, and a magnificent year for The Heritage Foundation. In 2010, Americans concerned about our nation’s future enrolled as Heritage supporters at a record pace. Our membership grew from 580,000 to 710,000, a 22 percent increase.

Tea Party supporters recognized Heritage as that rarest of all Washington institutions: a principled force that fought daily to uphold the ideals of our nation’s founders. Congress might forsake them. Political parties might turn like weather vanes. But Heritage could be counted on to stay the course. Heritage had faithfully defended America’s founding principles and traditional values for 37 years. We weren’t about to go wobbling in this time for choosing.

In January, we helped hammer out The Mount Vernon Statement, a manifesto reaffirming “a Constitutional conservatism [that] unites all conservatives through the natural fusion provided by American principles.” The unifying statement, written under the leadership of Heritage’s Ronald Reagan Fellow Edwin Meese, was signed by a bevy of leaders representing all wings of the conservative movement.

A grassroots movement needs institutional support, and Heritage provided plenty of intellectual ammunition to the legions seeking to restore constitutional government. *We Still Hold These Truths: Rediscovering Our Principles, Reclaiming Our Future*, written by Heritage’s Matthew Spalding, became a bestseller. A trove of insight and inspiration, it served as a lodestar for the Tea Parties.

Our annual Henry Salvatori Prize for American Citizenship went not to an individual, but to the movement. The prize money allowed us to supply “First Principles Field Kits”—boxes of Heritage’s pocket Constitutions, fact sheets, monographs and books—to 350 Tea Party leaders across the nation.

*James L. Buckley received Heritage’s highest honor, the Clare Boothe Luce Award, at the December President’s Club meeting. A former U.S. Senator, State Department official and federal judge, Buckley shaped policy in all three branches of government for 40 years.*

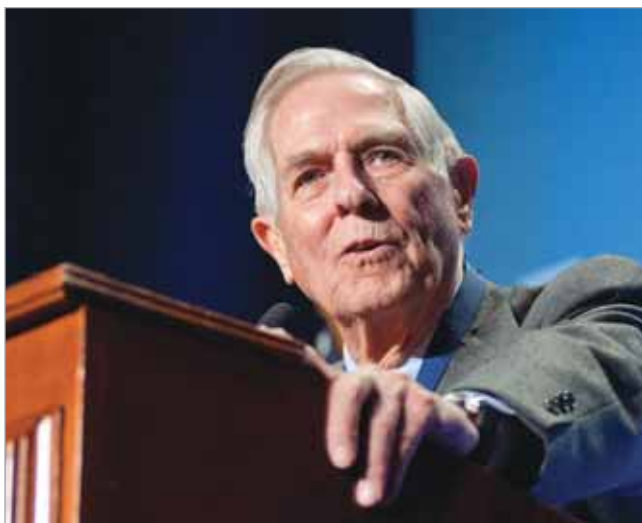


Photo: Chas Geer



Photo: Frasierphoto.com

In August, we issued a policy blueprint for getting America back on track. *Solutions for America* presented 128 specific policy prescriptions across 23 issue areas. It became an invaluable primer for Tea Party leaders and conservative candidates across the nation.

Immediately after the election, we issued a five-point “Get to Work” list for lawmakers:

- Stop the Obama tax hikes
- Freeze and cut spending
- Repeal ObamaCare
- Protect America
- Get control of government.

The first item was accomplished in the lame-duck session, leaving the new Congress with four to go.

Our strength, reach and effectiveness grew along with our membership. Contributions reached a new high: nearly \$73 million. Subscriptions to Morning Bell, our daily online newsletter, rose to 162,000 subscribers; our Facebook friends numbered nearly 300,000, and our Twitter following tripled over the course of the year.

We also spread our message widely

through traditional media. Heritage commentaries generated more than 1,400 clips from major print publications, and our experts gave more than 2,750 radio and 1,000 TV interviews. Our Lectures & Seminars team produced 186 public events, and our External Relations team carried the Heritage message to more than 60 conferences and seminars outside the Beltway.

On Capitol Hill, Heritage experts testified at 28 House and Senate hearings and conducted more than 800

*The Heritage Foundation Board of Trustees (from left): Midge Decter; Robert J. Herbold; Meg Allen; Robert Pennington; Brian Tracy; Richard M. Scaife, Vice Chairman; David R. Brown, Trustee Emeritus; Abby Moffat; Nersi Nazari; Douglas F. Allison; Thomas A. Saunders III, Chairman; Edwin J. Feulner; Jerry Hume; Phillip N. Truluck; J. Frederic Rench, Secretary; Barb Van Andel-Gaby; Larry P. Arnn; J. William Middendorf II; Kay Coles James; Belden Bell; Todd W. Herrick; Marion G. Wells; Steve Forbes. (Not pictured: William E. Simon, Jr.)*



Photo: Michelle McMin

*Philanthropists Helen and Richard De Vos (center) received the Clare Boothe Luce Award at the April Leadership Conference. Heritage President Edwin Feulner (left) and Chairman Thomas Saunders honored the couple for their unwavering commitment to “keeping family, faith, and civic virtue at the heart of American life.”*



Photo: David Hillis Photography

*Heritage Senior Management: (standing, from left) Phillip N. Truluck, Executive Vice President; John Von Kannon, Vice President and Senior Counselor; Edwin J. Feulner, President; Becky Norton Dunlop, Vice President; Edwin Meese III, Reagan Fellow; Michael G. Franc, Vice President; Genevieve Wood, Vice President; John Fogarty, Vice President; Michael Spiller, Vice President; Ted E. Schelenski, Vice President; Michael M. Gonzalez, Vice President; Stuart M. Butler, Distinguished Fellow; (seated, from left) Kim R. Holmes, Vice President; David Addington, Vice President. (Not pictured: Robert E. Russell Jr., Counselor.)*

briefings for lawmakers and their staffs. We also wrote more than 580 policy Backgrounders, Executive Memos, WebMemos, Legal Memos and Special Reports. Lawmakers asked our Center for Data Analysis to analyze, privately, the economic consequences of 64 draft legislative proposals, and, as always, Heritage delivered.

During the midterm election campaign, our Government Relations team briefed 141 candidates. After the election, we welcomed 40 of the winners to our New Members Orientation workshop. (Harvard's orientation attracted only 24.)

## Transitions

Heritage took four unprecedented steps to remain at the forefront of influential organizations in Washington:

- We created a sister organization — Heritage Action for America — to put political pressure on Congress to adopt Heritage solutions as the law of

the land. Michael Needham, a former Heritage Chief of Staff, is CEO.

- We created [libertad.org](http://libertad.org), a new website that presents Heritage Foundation research, analysis and commentary in Spanish.
- We transformed our Center for Media and Public Policy into a hub of investigative journalism. Led by Robert Bluey, the Center now produces print, broadcast and digital media exposés of government malfeasance and abuse of power.
- We formed the Center for Policy Innovation, a new division charged with designing the next generation of breakthrough policy ideas. It's headed by Stuart Butler, the man who came up with the idea.

Director of our domestic policy shop since 1982, Butler remained on Heritage's Senior Management Team, while David Addington joined as our new Vice President of Domestic

## Honors for Heritage in 2010

*Washingtonian* magazine named Heritage President Edwin Feulner one of “45 Who Shaped Washington” over the last 45 years.

In the UK, Feulner also made the *Daily Telegraph*’s short list of “The Most Influential U.S. Conservatives.”

The American Association of Political Consultants gave Heritage its “Best Facebook Page” award, and *Politics* magazine honored our “No Energy Tax” Facebook application as both “Most Innovative Product of the Year” and “Best Use of Social Networking Technology.”



Photo: Chas Geer

President Edwin Feulner, “most influential” (Daily Telegraph).



Photo: Chas Geer

Domestic Policy Studies Director Jennifer Marshall, “power player” (National Journal).

*National Journal* named Jennifer Marshall, Director of Domestic Policy Studies, one of “20 Power Players” for her role in driving the national debate on education policy.

Distinguished Fellow Jim Talent also won the “power player” designation from *National Journal* for his work on defense policy. And Congress tabbed him to serve on the Quadrennial Defense Review Independent Panel. ▲



Photo: Chas Geer

Distinguished Fellow Jim Talent, “power player” (National Journal).

and Economic Policy. A veteran of Washington policy debates, Addington most recently had served as Chief of Staff and Counsel to Vice President Dick Cheney.

In the following pages, you can read about many major initiatives—and successes—of the last year. None of them would have been possible without the generous support of our members.

We’ll conclude this message by thanking you for that support and by reaffirming our commitment to justify your trust in us every day in 2011. The Heritage Foundation has flourished because we are wholly committed to advancing practical policy solutions anchored in immutable conservative principles. This will not change. We pledge to remain fully accountable to you, our members, for all that we do. In that spirit we offer you this report. ▲

Sincerely,



Photo: Fraserphoto.com

*Thomas A. Saunders III*  
Thomas A. Saunders III, Chairman



Photo: Fraserphoto.com

*Edwin J. Feulner*  
Edwin J. Feulner, President



# Fighting for First Principles

## First Principles

What sparked and fueled the Tea Party movement was a sense of alarm: alarm at how fast government was growing, spending our nation into ruinous debt, and intruding ever more deeply into our personal lives. Millions rallied to Tea Party events, vowing to take America back.

Scneering liberals began asking, “Back to what?” as though it were the ultimate *Gotcha!* question.

The answer from the Tea Parties was philosophically solid and disarmingly simple: back to the principles of America’s founding; back to the idea that the Constitution was written to enumerate and thereby *limit* the powers of government; back to the idea that, as Ronald Reagan often noted, we are a people with a government and not the other way around.

Heritage’s B. Kenneth Simon Center for American Studies (CAS) supplied intellectual ammunition to those fighting to restore America to her first principles. *We Still Hold These Truths: Rediscovering Our Principles*,

*Reclaiming Our Future*, the 2009 book by CAS Director Matthew Spalding, became a national bestseller and a Tea Party favorite.

Heritage followed up with “The Patriot’s Guide: What You Can Do to Restore Liberty in America,” a how-to pamphlet encouraging activism in light of first principles and policy knowledge. We also distributed the four-*millionth* copy of our pocket-sized Constitution.

Additionally, CAS continued its series of monographs on first principles and launched a new pamphlet series—“Understanding America”—that focuses on the important role America plays in shaping the world we live in and the world our children will inherit.

For those who couldn’t wait for the next publication, CAS also launched a weekly e-newsletter, “New Common Sense: First Principles Today.” In less than eight months, the e-newsletter boasted more than 6,500 subscribers.

In the spring, Mary Jo Thielen and Ryan Gotsch of the Omaha Community Committee formed a *We Still Hold These Truths* study group. This led Heritage to develop a *Leader’s Guide* and other materials to support small group discussions that explore first principles in depth. Over 4,000 *Leader’s Guides* have been sold for the purpose of starting reading groups around the nation. Heritage also developed a *We Still Hold These Truths* DVD that



Rep. Paul Ryan, R-Wis. (left), and Center for American Studies Director Matthew Spalding continue a “break time” discussion at Heritage’s policy retreat for conservative members of Congress, held Jan. 14-16 at Monticello.



Photos: Chas Geier



Rep. Allen West, R-Fla., (foreground) and 39 other newly elected members of Congress participated in Heritage's "freshman orientation" workshop, Nov. 19-21 in Washington, D.C. The sessions dispensed policy information as well as practical advice, such as how to staff a congressional office.



debuted to broad acclaim on Constitution Day at the Value Voters Summit. It was subsequently featured at the State Policy Network's Annual Meeting and numerous Tea Party conferences.

Working to strengthen the next generation of conservative leaders, our First Principles Team and Heritage's Young Leaders Program co-hosted a "First Principles & Public Policy Forum" for interns in the nation's capital, and sponsored first principles seminars on several college campuses.

Of course, Heritage didn't forget about the longtime faithful of the conservative movement. In January, Ed Feulner coordinated the drafting and release of The Mount Vernon Statement. Signed initially by over

80 leaders representing all stripes of conservatism, the document recommitted the established conservative movement to a "Constitutional conservatism based on first principles" as the "framework for a consistent and meaningful policy agenda." By year's end, the list of signatories had swollen to more than 45,000.

In August, as Americans pondered their electoral choices, Heritage issued *Solutions for America*, a comprehensive policy guidebook presenting 128 specific recommendations on how Congress can address our nation's most pressing problems while remaining true to America's founding principles.

Meanwhile, Heritage experts began working with the Congressional 10<sup>th</sup>

*Billie Tucker of First Coast Tea Party in Jacksonville, Fla., was one of three leaders accepting the 2010 Henry Salvatori Prize for American Citizenship on behalf of the nationwide grassroots movement. The \$25,000 prize financed "First Principles Field Kits" containing pocket editions of the Constitution and Declaration, as well as books and monographs on founding principles, to 350 Tea Party organizations throughout the country.*

Surrounded by Heritage interns, Dr. Lee Edwards, our Distinguished Fellow in Conservative Thought, fields questions about William F. Buckley following a luncheon seminar on the conservative movement. The 2010 biography of Buckley is Edwards' 20th book.

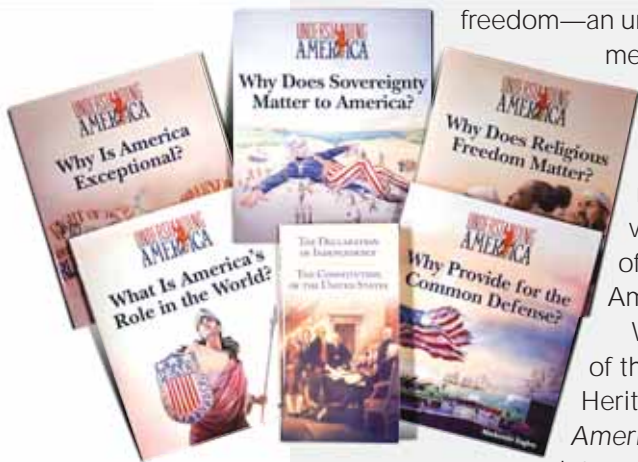


Photos: Chas Geer

## Preserving the Sacred Fire of Liberty

America was founded on the idea of freedom—an unprecedented development in the tide of history that is both blessing and obligation. For, as George Washington first recognized, the “preservation of the sacred fire of liberty” depends on the American people.

What are the implications of that? That’s the topic of Heritage’s *Understanding America* series. These booklets explore how the U.S. commitment to the universal truths of human equality and the right to self-government—as proclaimed in the Declaration of Independence—requires a vigilant defense of the cause of liberty, both at home and abroad. 📖



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Amendment Task Force to craft a new federalism agenda. This renewed focus on federalism proved timely, if not downright prescient, when voters in November awarded 680 state legislative seats to the GOP, giving state legislatures the most conservative—hence, federalist-friendly—cast since the 1920s.

When the voters had spoken on Nov. 2, Heritage immediately issued a legislative checklist for the new Congress. The to-do list was short, but absolutely vital:

- Freeze and cut spending
- Repeal ObamaCare
- Stop the Obama tax hikes
- Protect America
- Get control of government.

Conservative leaders on the Hill embraced that list. Indeed, they didn’t wait until 2011 to get cracking. In the lame-duck session, conservative negotiators stopped the Obama tax hikes cold—at least for two years.

The new House quickly adopted another Heritage recommendation: a rule requiring a citation of constitutional authority for every bill introduced. In December, CAS began issuing “Constitutional Guidance for Lawmakers” to inform the decisions of the new Congress. 📖

# Reining *in* Rampant Government

## Enterprise & Free Markets

Faced with severe problems in financial markets and the overall economy, “progressives” sought to paper them over with greenbacks, regulations, and debt. In the ensuing debate over “stimulus” spending, Heritage experts offered constructive criticism that caught the nation’s attention.



Photo: Chas Geer

**B**rian Riedl, our Grover Hermann Fellow in Federal Budgetary Affairs, emerged as one of the most influential critics of federal “stimulus” initiatives. His analysis of why the stimulus failed attracted tens of thousands of readers on *heritage.org* and an even larger audience when *The Wall Street Journal* posted it on its website. Opinion leaders from syndicated columnist George Will to (now) House Budget Chairman Paul Ryan, R-Wis., soon picked up his arguments, and scores of newspapers carried Riedl’s commentaries explaining why the stimulus approach was doomed to fail.

Senior Policy Analyst Curtis Dubay’s WebMemo showed how “Obama’s

2011 Budget Contradicts Focus on Job Creation.” It, too, was posted in full by *The Wall Street Journal*.

As always, Heritage offered a better way to spark economic recovery. Rejecting failed Keynesian nostrums, we developed a “no-cost stimulus” plan. It gained national attention when Rep. Peter Roskam, R-Ill., raised the idea at a televised retreat with President Obama.

Rather than reform federal policies that helped trigger the financial crisis, congressional liberals pressed to impose even more ill-considered regulations on financial institutions. Heritage aggressively argued that the alleged reforms of the Dodd-Frank bill would only worsen

*Sen. Judd Gregg, R-N.H., outlines key points of his sweeping tax reform bill, co-sponsored by Sen. Ron Wyden, D-Ore., (left) at a March 16 public seminar in Heritage’s Allison Auditorium.*

*“When the National Commission on Fiscal Responsibility and Reform issued its long-awaited report on how to remedy the structural deficit, Heritage was quick to applaud the effort, but just as quick to note that it missed the boat.”*

problems in the financial sector and might even end up creating a permanent bailout program.

Although the bill ultimately passed, several of its more egregious provisions—such as the \$50 billion bailout fund—were forced out. More encouraging, the watered-down version that passed remained deeply unpopular with the American public, especially given that it left Fannie Mae and Freddie Mac—major players in the housing meltdown—untouched. Consequently, this is fertile ground for future action.

To paper over America’s crumbling infrastructure, President Obama proposed a national infrastructure bank. Herbert and Joyce Morgan Fellow Ronald Utt noted that the same scheme had already failed in South Carolina and explained why a bigger, federal version would fare no better. In the end, the ill-conceived idea died.

President Obama also proposed using a transportation bill to modify human behavior according to the tastes of liberal elites. The proposed “livability” program would “incentivize” Americans

to abandon their cars in favor of mass transit and to leave roomy, suburban houses for Hobbit-sized homes or—better yet—high-rise dwellings in cities. Utt blew the whistle on the initiative. Working with analysts from a variety of conservative and libertarian think tanks, Heritage presented a unified front in opposition to such policies.

Heritage also prepared cogent analyses that helped blunt the Administration’s drive toward so-called net neutrality — an Internet regulatory scheme that would restrict freedom of speech and spin out miles of red tape.

Most importantly, we revealed the “big picture” problem of over-regulation in two key studies of “Red Tape Rising.” The first documented how fast federal regulations had multiplied and their cumulative costs. “Regulatory taxes do not appear on any balance sheet, yet cost Americans about \$1 trillion every year,” it noted. The study attracted major media coverage, including stories in *The New York Times* and National Public Radio.

The second study focused on regulations imposed in the first year of the Obama Administration. Its conclusion: That year saw the greatest increase in regulatory burdens in U.S. history—43 major new regulations that will cost the economy more than \$26 billion.

Heritage experts exposed the ever-expanding Leviathan as a self-enriching beast. Senior Policy Analyst James Sherk found that federal workers are compensated 30 to 40 percent more than comparable workers in the private sector. Compensating civil servants at market rates, he noted, would save taxpayers \$47 billion annually. Senior Analyst Jason Richwine reached a similar conclusion using different methods. Unions howled in protest as Heritage made these find-

*Sen. John Thune, R-S.D., delivers his Aug. 4 lecture, “Changing Washington Starts with Changing How Congress Does Business,” to a packed Lehrman Auditorium.*



Photos: Chas Geer

*Distinguished Fellow Ernest Istook, a longtime member of the House Appropriations Committee, explains the procedures—and pitfalls—of the appropriations process at our orientation workshop for new members.*



ings common knowledge with columns appearing in dozens of papers including *USA Today* and *The Wall Street Journal*.

Throughout the year, Heritage repeated a core financial truth: Our fiscal problems stem from too much government spending, not too little taxation. When the Republican Party thumped its collective chest for promising to cut spending by \$100 billion, Brian Riedl upped the ante, delivering a list of \$343 billion in available cuts.

When the National Commission on Fiscal Responsibility and Reform issued its long-awaited report on how to remedy the structural deficit, Heritage was quick to applaud the effort, but just as quick to note that it missed the boat. The commission's mistake: It offered a tax-heavy solution to a spending problem.

"Overall, the commission would raise taxes by \$3.3 trillion in the first decade, yet reduce Social Security and health spending (the source of nearly all long-term deficits) by just \$442 billion," Riedl noted. The commission's report disappeared from the public debate within days. 📌



Photos: Chas Geer

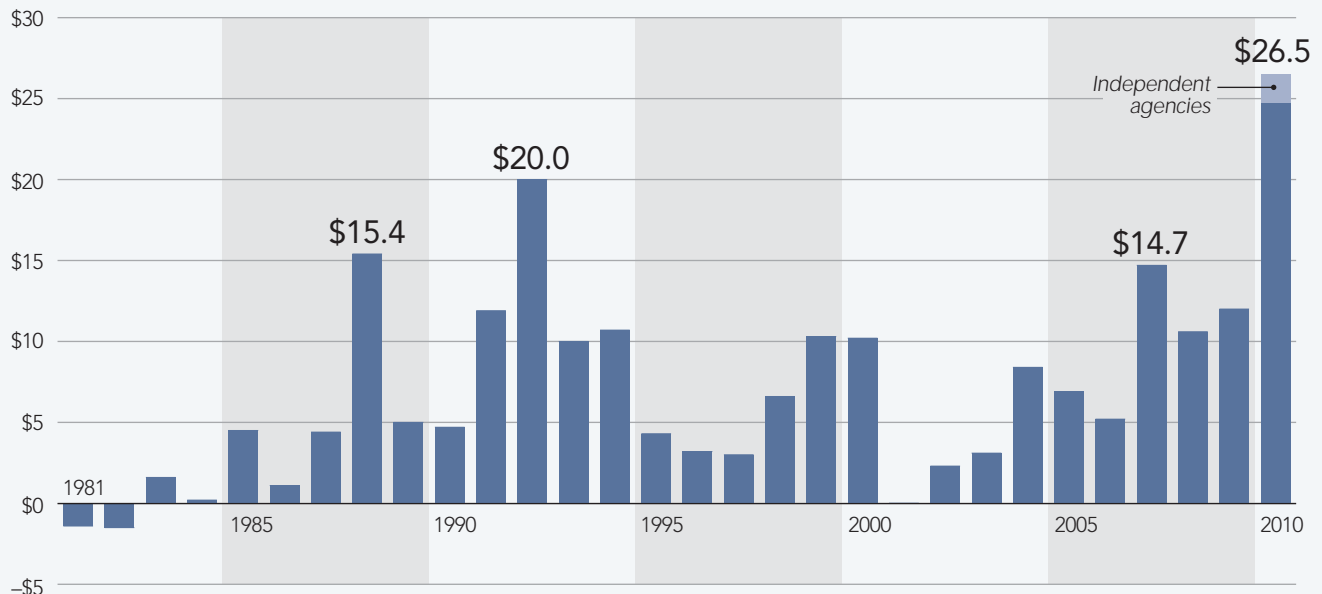
*Heritage Vice President David Addington and Distinguished Fellow Elaine Chao discuss ways to restrain government growth at our retreat for new members of Congress.*



*At the January retreat for conservative members, Harry C. Alford, President and CEO of the National Black Chamber of Commerce, explains how excessive federal regulation and taxes punish entrepreneurs.*

## Red Tape Rising: Cost of New Regulations Reaches Record High

In Billions of Dollars by Fiscal Year, Adjusted for Inflation



Sources: Figures for 1981–2009: U.S. Office of Management and Budget; figures for 2010: Heritage Foundation calculations based on agency reports.



Photo: Chas Geer

## Entitlements

Most Americans think the federal government is too big, too intrusive, and too costly. Yes, they want government to work more efficiently. But they also think government is simply trying to do too much.

**P**ollster Scott Rasmussen finds that three of every four “Mainstream” voters (78 percent) say they want fewer government services and lower taxes.

That puts them at odds with what Rasmussen calls the “Political Class”—70 percent of whom say they want *more* government services and higher taxes.

This disagreement over the size and scope of government is fundamental. If America is truly a self-governing nation, then the will of the American people cannot continue to be overridden by an elite political class. Government must tax and spend less.

That became the central demand of the Tea Party revolution. And throughout the year, Heritage amplified the theme that’s anathema to Washington’s elites: Ever-escalating federal spending is a cause, not a cure, for what ails the American economy.

We began by warning that the

*At an April event, Sen. Jim DeMint, R-S.C. (left), and Rep. Tom Price, R-Ga., discuss findings of Heritage’s latest Index of Dependence on Government and how increasing reliance on federal assistance undercuts the family and the republic.*

president’s budget, with its call for unprecedented levels of spending, was far more ruinous than first appeared. Grover Hermann Fellow Brian Riedl exposed how the CBO’s budget baseline report understated the 10-year deficit by \$7 trillion. Using a more realistic baseline, Riedl showed that the proposed budget would add \$16.3 trillion in new debt between 2009 and 2020.

These were astounding revelations. Rush Limbaugh read Riedl’s report on the air, and it quickly became the topic of numerous nationally syndicated radio shows. Riedl appeared on C-SPAN’s “Washington Journal,” taking phone calls from concerned taxpayers across America and explaining the need

for budget process reform and how Congress should go about it.

Liberals mounted an effort to increase tax revenues by imposing a value-added tax. The VAT appeals to big-spending politicians because it remains almost completely hidden from consumers, yet can generate oceans of revenue — and “progressives” crave oceans of revenue for bailouts, stimuli and other doomed-to-fail initiatives.

Heritage worked diligently to educate Hill staff and the general public about the dangers of a VAT. As a measure of the value placed on Heritage research, one of our Capitol Hill briefings attracted a standing-room-only crowd of staff from the Senate Finance and Budget Committees and Hill reporters.

Soon afterward, Sen. John McCain, R-Ariz., offered a Sense of the Senate Resolution finding that a VAT would be harmful to the nation. In introducing the resolution, McCain quoted J.D. Foster, Heritage’s Norman B. Ture Senior Fellow in the Economics of Fiscal Policy. The resolution carried by an overwhelming 85-13 majority.

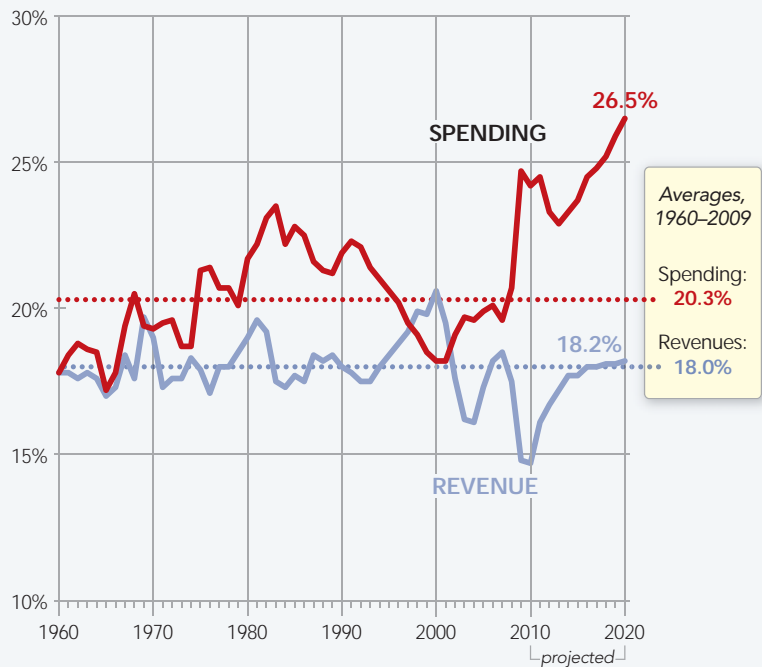
While the VAT is not the way to reform our Byzantine tax code, reform is indeed needed. One major problem: Fewer and fewer Americans are paying federal

## Big Spending, Not Tax Relief, Drives Budget Deficit

The White House and some in Congress continue to blame federal budget deficits on the 2001 and 2003 tax cuts. But even if lawmakers made those cuts permanent, revenues still would surpass the historical average by the end of the decade.

So the rising deficits to come are entirely the result of an equal rise in government spending. Surging spending — not declining revenues — is the problem.

### Spending, Revenues as Percentage of GDP, by Fiscal Year



Source: Heritage Foundation calculations based on Congressional Budget Office data.



*Brian Riedl, Heritage’s Grover Hermann Fellow in Budgetary Affairs, outlines policies to spark investment and economic growth without spending tax revenues.*

Photo: Chas Geer





Photo: Chas Greer

Alison Fraser, director of our Roe Institute for Economic Policy Studies, discusses deficit reduction options with Bill Flores, R-Texas, (left) and James Lankford, R-Okla., between sessions at the workshop for new members of Congress.

## On the Air, Everywhere

Heritage experts offered conservative solutions—and critiqued big-spending, government-centric policies—in more than 1,000 television and nearly 2,800 radio appearances in 2010.



David John, Senior Research Fellow



Alison Fraser, Director, Roe Institute



J.D. Foster, Ture Senior Fellow



Curtis Dubay (right), Senior Policy Analyst

income taxes, while more and more are reaping federal benefits. Nearly half of all households now pay zero income taxes. This trend, which has persisted for years, is transforming America into a nation of takers rather than producers. Worse, it leaves more and more people trapped in a state of dependence on government to provide them with the basics: food, shelter, healthcare, and more.

Our Center for Data Analysis (CDA), under the direction of William Beach, has documented this disturbing development in Heritage's annual *Index of Dependence on Government*. The 2010 edition, released in October, showed that dependence in 2009 increased 13.6 percent over the previous year, bringing the *Index* to an all-time high. Additional research on this topic by Curtis Dubay, Heritage's Senior Tax Policy Analyst, earned a banner headline on the Drudge Report and a lead editorial in *USA Today*.

As the end of the year approached and the recession continued, liberals continued to push for massive tax hikes—income taxes, capital gains taxes, dividend taxes, and more—to hit taxpayers on Jan. 1, 2011. Heritage produced detailed research showing exactly why such hikes were the *last* thing our struggling economy needed. The special CDA report, "Obama Tax Hikes: The Economic and Fiscal Effects," documented how raising taxes on those earning above \$250,000 would take jobs and income from all Americans at precisely the time when we need policies that stimulate job creation. Most valuable for lawmakers, the report presented job and income loss by state and congressional district, allowing members to see clearly how raising taxes in a recession would hurt their constituents.

After the elections, a chastened lame-duck Congress returned and ultimately voted down the higher tax rates... at least for the next two years. Score one for Mainstream voters. It's a beginning. 🗳️

# Protecting Individual Freedom *under Law*

## Rule of Law

Individual freedom requires the rule of law. But the rule of law also assumes reasonableness on the part of those who write and enforce our laws. Increasingly, our jurisprudence is losing sight of a key tenet of reasonable law—that to merit a criminal conviction, one must have *intended* to commit a criminal act.

Consider Lindsay Brown, a high-school senior. She was jailed for having a butter knife in her car. Or Cortez Curtis, a 13-year-old arrested for bringing a calculator that contained tools (including a tiny knife blade) to school. Or 12-year-old Anshe Hedgepeth, handcuffed and detained for eating one french fry on the D.C. subway. Or 61-year-old Kay Leibrand, booked for letting her hedges grow too tall.

The federal government has now declared so many things to be criminal, it can't even say how many crimes are on its books. Yet Congress continues to legislate, on average, more than 50 new federal "crimes" each year.

But that's only the beginning. Increasingly, federal *regulations* carry criminal penalties. Now, even well-

intentioned, law-abiding citizens can find themselves in court facing criminal charges.

That's the case laid out in *One Nation Under Arrest*, a compelling book edited by Heritage's Paul Rosenzweig and Brian Walsh. Released in April, the book presents real-life stories to document "how crazy laws, rogue prosecutors, and activist judges threaten your liberty." John Stossel of FOX News drew heavily from the book in preparing an in-depth report on the problem. His program featured interviews with Walsh and several of the people cited in the book whose lives took a nightmarish turn upon the whims of overzealous bureaucrats, prosecutors, and judges.

Walsh followed the book with a special report, "Without Intent: How Congress Is Eroding the Criminal Intent Requirement in Federal Law," co-authored by Tiffany Joslyn of the National Association of Criminal Defense Lawyers. The report, which generated more than 300 media stories,



Robert Alt, Deputy Director of Heritage's Center for Legal and Judicial Studies, voices concerns about the record of U.S. Supreme Court nominee Elena Kagan before the Senate Judiciary Committee. Edward Whalen (right), President of the Ethics and Public Policy Center, also testified at the July 1 hearing.

*At an Oct. 6 public lecture, former U.S. Attorney General Richard Thornburgh explains how the trend toward “over-criminalization” unjustifiably expands federal powers and jeopardizes our constitutional system.*



Photo: Spencer Anderson

found that 60 percent of new nonviolent offenses lack an adequate criminal-intent requirement. The bipartisan duo of Reps. Bobby Scott, D-Va., and Louie Gohmert, R-Texas, highlighted the report at a Capitol Hill press conference and held a House hearing devoted exclusively to over-criminalization. Walsh testified at that hearing.

Another problem drawing the attention of our Legal Center was the ObamaCare provision requiring individuals to buy health insurance. Center Director Todd Gaziano, in concert with Georgetown University Professor Randy Barnett and private attorney Nathaniel Stewart, wrote an influential Legal Memorandum, “Why the Personal Mandate to Buy Health Insurance Is Unprecedented and Unconstitutional.” We followed up with an event featuring Sen. Orrin Hatch, R-Utah, and UCLA

*Distinguished Fellow Edwin Meese speaks at a Nov. 10 dinner at the Supreme Court marking the 25th anniversary of his historic speech on “original intent” to the American Bar Association. That speech, delivered while Meese served as President Reagan’s Attorney General, launched the revival of constitutionalism.*



Photo: Chas Geer

Professor Eugene Volokh. In a Senate floor speech on the same issue, Hatch entered Heritage legal research into the Congressional Record in support of his position. Sen. John Ensign, R-Nev., followed suit—twice—in support of two constitutional points of order.

The Legal Center also was deeply engaged in the debate concerning Elena Kagan’s nomination to the United States Supreme Court. We hosted a six-event Supreme Court series on the topic. And Center Deputy Director Robert Alt was among the select few asked to testify at Kagan’s confirmation hearing. His testimony, the influential political blog Power Line reported, “shredded” the claims of one of the Democrats’ star witnesses.

To focus attention on the Constitution’s preeminent place in the American system of government, we initiated the ongoing *Preserve the Constitution* lecture series. The premier lecture was delivered by Chief Judge Frank Easterbrook of the Seventh Circuit Court of Appeals at the Nov. 10 *Originalism Symposium and Dinner*. It commemorated the 25<sup>th</sup> anniversary of the Great Debate on Originalism inaugurated by Attorney General Edwin Meese. Supreme Court Justice Samuel Alito hosted the gala, which included seven circuit judges, two former attorneys general, and one former solicitor general among the distinguished guests.

Eight other series events included a discussion of judicial elections with former Michigan Supreme Court Justice Clifford Taylor, a critique of ObamaCare by Rep. Tom Price, R-Ga., a review of the Arizona immigration lawsuit, and an address on over-criminalization by former U.S. Attorney General Dick Thornburgh. Series speakers were gratified when the House of Representatives subsequently opened its 2011 session with an unprecedented reading of the Constitution—a much-needed reminder of the federal government’s responsibilities, the source of its authority, and the limits on its power. 🗳️



Photo: Chas Geer

*Citing rigorous studies on criminal recidivism, Senior Policy Analyst David Muhlhausen (foreground) questions the effectiveness of the Second Chance Act in July 21 testimony before the Senate Judiciary Committee.*



Photo: David Hills

*Senior Legal Research Fellow Brian Walsh (right) testifies before the House Subcommittee on Crime, Terrorism, and Homeland Security. With him are two victims of over-criminalization: racing legend Bobby Unser (left) and Miami businessman Abner Schoenwetter.*



Photo: Spencer Anderson

*Judge A. Raymond Randolph of the U.S. Court of Appeals for the District of Columbia delivers Heritage’s annual Joseph Story Lecture, Oct. 20. His topic: “The Guantanamo Mess.”*



## Providing for a Strong National Defense

Photo: iStock Photo

### Protect America

Christmas Day 2009: Despite elaborate airport security, a Muslim extremist smuggles plastic explosives aboard a plane in Amsterdam and very nearly detonates them over Detroit.

Within days of the botched bombing, senior federal officials asked to meet with Heritage analysts to discuss better ways to thwart such plots. National security experts James Carafano and Jena McNeill advised them to restructure the Federal Air Marshal Service, as well as the Visa Security Officer program. Their proposals were quickly adopted.

Meanwhile, Congress scheduled hearings on the Christmas bombing attempt. McNeill's WebMemo, "Six Questions for Terror Plot Hearings," educated members on the core issues prior to the hearings. Numerous briefings by McNeill and Senior Legal Fellow Charles Stimson followed. Ultimately, Congress embraced their recommendations, reauthorizing key investigative powers and tools provided under the Patriot Act.

Heritage logged another homeland security "win" in November, when the Transportation Security Administration implemented the "Secure Flight"

program. Now the TSA, not the airlines, handles cross-checking of passenger lists with no-fly lists, something Heritage had long advocated. Had the program been in place five months earlier, the Times Square bomber would have been nabbed *before* actually boarding the plane.

Defense for the Future Anti-terrorism wasn't the only area of national security where Heritage enjoyed policy success. In late 2009, Congress adopted Heritage's recommendation to establish an independent commission to review the Pentagon's Quadrennial Defense Review. In 2010, Distinguished Fellow Jim Talent was named a commissioner. And Heritage Research Fellow for National Security Studies Mackenzie

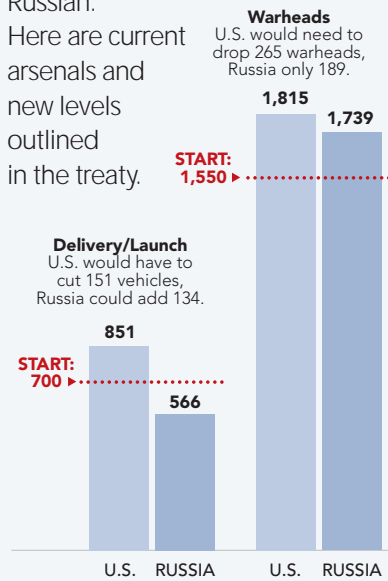
Eaglen served as one of the panel's three staff members.

The commission's final report validated many Heritage criticisms of the Administration's long-term defense plans and echoed key Heritage recommendations for more robust military modernization. The influential report was especially well-received by the Armed Services Committees.

To help nurture a better understanding of the need for modernization, Eaglen followed up by building a coalition dedicated to educating the public about the need to reinvest in America's military. The coalition's first fruit was "Peace Doesn't Keep Itself," an Oct. 4 *Wall Street Journal* column penned by American Enterprise Institute President Arthur Brooks, Foreign Policy Initiative Director William Kristol and Heritage President Ed Feulner. This was followed by a coalition briefing on Capitol Hill attended by more than 100 congressional staff and journalists.

## New START: Advantage, Russia

The START nuclear arms treaty will require greater U.S. reductions than Russian. Here are current arsenals and new levels outlined in the treaty.



Certainly, Heritage's message was being heard in the highest circles. When Defense Secretary Robert Gates later announced his efficiency reform initiative, he convened a small, private meeting to discuss his plans and solicit advice. Eaglen was one of 12 defense policy analysts invited to participate in that meeting.

## Missile Defense

Throughout 2010, Heritage fought to keep the Administration from abandoning plans for an effective missile defense. It started with a briefing for senators about the record of Philip Coyle, a staunch missile defense critic nominated to a top oversight position in the Pentagon. Members of the upper chamber balked at the dubious nomination and put it on indefinite hold. Ultimately, President Obama gave Coyle a recess appointment as Associate Director for National Security and International Affairs at the White House Office of Science and Technology Policy. The maneuver only hardened Senate opposition, though. The appointment expired at year's end, and Coyle was gone.

Heritage's battle against ratification of Obama's nuclear arms reduction pact with Russia did not end so happily. The New START Treaty had many flaws, from anemic verification provisions to lopsided arms cuts favoring Moscow. But the worst feature may well be its preamble linking reduction of offensive weapons to limitations on our missile defenses.

The Russians claimed that linkage was ironclad, while the Obama Administration insisted the treaty placed no meaningful restriction on

missile defense. Unconvinced, Heritage insisted the Administration disclose all side agreements made by negotiators. Senators soon called for the same. The Administration's refusal to honor those requests brought ratification in the Senate Foreign Relations Committee to a screeching halt. But only temporarily.

Ultimately, the Senate caved under a combination of political arm-twisting, White House funding promises, and the desire to get home for Christmas. On Dec. 22, the lame-duck Senate approved the treaty.

There was one bit of good news on the treaty front, however. For two years, F.M. Kirby Research Fellow Baker Spring and Margaret Thatcher Senior Research Fellow Ted R. Bromund had written of the substantive mutual advantages to be gained from defense trade cooperation treaties with the United Kingdom and Australia. Negotiated under the previous Administration, the pacts would facilitate "jointness" in military field operations and let defense contractors from all parties collaborate in developing cutting-edge military technology. In September, the Senate unanimously ratified both treaties. 🗳️



Photo: Chas Geier

Lisa Curtis, Senior Research Fellow in our Asian Studies Center, recommended making military aid to Pakistan contingent on how successfully it fought terrorists. Congress enacted that idea in 2010.

## The State of the U.S. Military



Heritage produced a unique chart book, "The State of the U.S. Military," to help Congress understand trends in defense spending and their disturbing ramifications.

# Working to Reform Health Care the Right Way

## Health Care

Passage of the Patient Protection and Affordable Care Act (aka ObamaCare) was the watershed moment of 2010—in terms of both policy and politics. Blithely ignoring widespread public opposition—and the bellwether election of Sen. Scott Brown in Massachusetts—House Speaker Nancy Pelosi rammed through the massive 2,000+ page bill heralding a government takeover of the nation's health care system.

While lawmakers hadn't read the bill, Heritage did. That's why Ed Feulner, on the day after passage, penned a column calling for repeal. Round Two of the effort to bring America the health care reform it needs had begun, and the first order of business was to bury the disaster dubbed ObamaCare.

As it had for months beforehand, our Center for Health Policy Studies produced a steady stream of analysis and commentary exposing the law's damaging provisions, building a case for repeal, and laying an intellectual foundation for getting health reform right. One popular product was "Side Effects," a web-based feature documenting the unintended consequences of this ill-designed legislation as they arose.

We also published a series of nine "impact" papers delineating how ObamaCare would adversely affect various audiences, from seniors to

families with young children, from businesses to taxpayers. The "Impact of ObamaCare on Doctors" paper sparked a *Wall Street Journal* editorial.

ObamaCare's requirement that individuals buy health insurance raised constitutional questions. Our Center for Legal and Judicial Studies issued a foundational Legal Memorandum, "Why the Personal Mandate to Buy Health Insurance Is Unprecedented and Unconstitutional." It was cited repeatedly during Senate floor debate and entered into the Congressional Record, twice—once by Sen. Orrin Hatch, R-Utah, and again by Sen. John Ensign, R-Nev.—to support two constitutional points of order.

Our Legal Center experts also provided advice and counsel to state officials challenging the legislation in the courts. Meanwhile, our health policy analysts gave state legislators guidance on how to fight back against ObamaCare with far more promising—and far less costly—market-based health reforms. Said Utah Speaker of the House Doug Clark, "The research and technical assistance you provide has, without question, been invaluable to us throughout this process."

In addition to providing "invaluable" assistance to lawmakers, Heritage took an unprecedented step: In April 2010 we launched Heritage Action for

*Senior Fellow Robert Moffit discusses responsible health reform initiatives at a March 18 seminar featuring Rep. John Shadegg, R-Ariz., and Grace-Marie Turner, President of the Galen Institute.*



Photo: Chas Geer



Heritage produced a series of videos documenting adverse “side effects” of ObamaCare. Dr. Martha Boone of Atlanta, small businessman Larry Patterson of Dallas, and Virginia Attorney General Ken Cuccinelli are among those featured.

America. A grassroots advocacy organization, Heritage Action is able to do what The Heritage Foundation cannot: actively press Congress to 1) enact our policy recommendations into law and 2) overturn bad policy decisions. One of Heritage Action’s first priorities: total repeal of ObamaCare.

Liberal predictions that Americans would “get over” their antipathy to a federal takeover of the health care system proved way off the mark. With Heritage and Heritage Action continuously highlighting new costs, flaws, and inadequacies in the law, public opposition only hardened. November 2010 polling showed that a majority of voters were casting their ballots against the Obama agenda in general and health care reform in particular; 58 percent favored repeal of ObamaCare. The stage was set for 2011. 🗳️



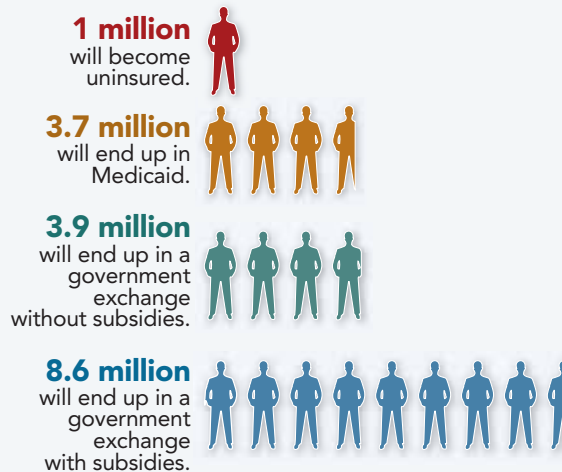
Photo: Chas Geer

### If You Like Your Health Care, Can You Really Keep It?

President Obama promised health care reform would not affect those who already have coverage. But one independent study shows more than 17 million people will be forced out of employer-sponsored health care plans. That’s more than one out of every 10.

Source: The Lewin Group

Of the **17.2 million** who no longer will have their employer-sponsored health plans under ObamaCare...



*Nina Owcharenko, Director of Heritage’s Center for Health Policy Studies, outlines market-based solutions for health reform at our November orientation workshop for new members of Congress.*



# Saving Students *from* Failed Education Systems

## Education

“Race to the Top,” the administration’s signature education initiative, might better have been called “Washington Knows Best.”

The not-so-sweet deal: States could compete for \$4.35 billion in education grants; in exchange they had to agree to adopt national education standards and tests. Just one more attempt to get state and local officials to hand the reins of education policy over to bureaucrats in D.C.

Heritage responded with multiple doses of common sense.

Jennifer Marshall, Director of Domestic Policy Studies, and Education Analyst Lindsey Burke co-authored “Why National Standards Won’t Fix American Education.” This powerful paper explained how national standards and tests “fail to address the fundamental misalignment of power and incentives in public education today.” *National Journal* later named Marshall one of “20 Power Players” for her success in driving the national debate on education policy.

In “Creating a Crisis,” a series of four

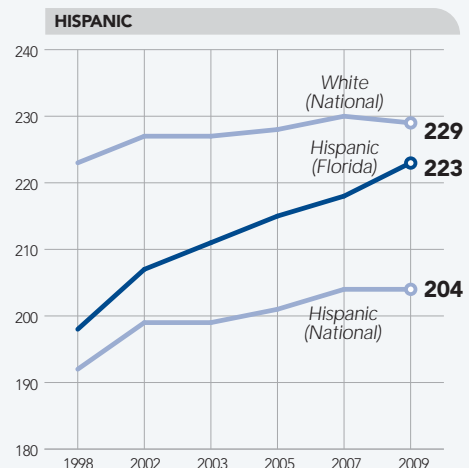
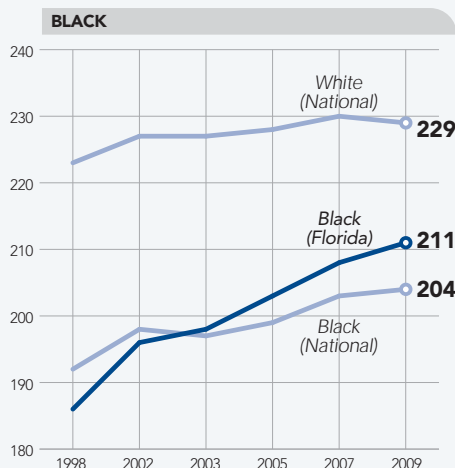


WebMemos, Burke debunked the common notion that more federal spending will fix whatever ails our schools. One of those memos, “Stimulating the Status Quo,” showed how the Education Department had squandered nearly \$100

## School Choice Helping Florida’s Minorities Narrow Educational Achievement Gap

In 1998, black and Hispanic students in the U.S. lagged far behind whites in fourth-grade reading scores. While that trend largely continues today, Florida minorities have made significant strides toward narrowing the gap.

NAEP Scores for 4th-Grade Reading



Source: National Assessment of Educational Progress, The Nation’s Report Card.



At the May President's Club meeting, Virginia Walden Ford (right), Executive Director of D.C. Parents for School Choice, describes the success of an education voucher program for children in Washington's low-performing schools. Also on the panel: Heritage Director of Domestic Policy Jennifer Marshall (left) and Opportunity Scholarship student Ronald Holassie.



billion in “stimulus” funding in less than a year... without even seeking, much less achieving, any useful reform.

Naturally, Heritage had a far more promising approach to recommend: state-based education reforms that empower parents to choose the best possible education for their children. In “A Smarter Path to a ‘Race to the Top,’” for example, we urged that states be allowed to cut through the red tape associated with No Child Left Behind and send education resources where they’re most needed.

In promoting parental empowerment, Heritage continued to champion parental choice in education, especially the District of Columbia’s own Opportunity Scholarship Program. Congressional liberals blocked new students from entering the program in 2010, but Heritage issued a study showing what a huge boon it had been to thousands of students. Those who used their vouchers to attend private schools had a 91 percent graduation rate, compared

with the dismal 49 percent rate among D.C. public school students. The study renewed interest in reviving the program in 2011, with newly minted House Speaker John Boehner poised to lead the charge for reinstatement. 🗳️

“Let Me Rise!” a Heritage-sponsored public information campaign supporting the D.C. Opportunity Scholarship program, placed ads on 225 city buses. The campaign featured eight of 1,700 low-income children helped by the education voucher program.



Texas Gov. Rick Perry, a strong proponent of school choice, fields questions alongside Heritage Vice President Becky Norton Dunlop. Perry came to Heritage to discuss “Fed Up!”—his book condemning Washington’s encroachment in state and local policymaking.

# Promoting Economic Freedom and American Sovereignty

## American Leadership

In our global economy, the fortunes of nations and individuals are increasingly entwined. That's one reason Heritage encourages the expansion of economic freedom—a prerequisite for prosperity and human liberty—throughout the world.

For more than a decade, Heritage and *The Wall Street Journal* have partnered to produce the *Index of Economic Freedom*. The 2010 *Index*, our 16<sup>th</sup> edition, analyzed economic freedom in 183 countries and brought bad news: The global advance toward greater economic freedom had stalled.

Worse, the United States lost ground. For the first time in *Index* history, the U.S. could no longer be ranked among the world's "economi-

cally free" nations. The massive bailouts, increases in regulations on businesses, and unprecedented stimulus spending combined to drive America's economy into the category of only "mostly free."

Despite this depressing news, Heritage continued to teach the virtues of free enterprise, free trade, and free people. In addition to lecture tours that circled the world, we sponsored conferences in Latin America, Europe, and East Asia.

Our Asian Studies Center made a


special push to reinstate economic talks between the United States and Taiwan, suspended since 2007. On Sept. 30, both nations announced the long-stalled U.S.-Taiwan Trade and Investment Framework Agreement would resume.

## Protecting Our Sovereign Rights

On March 30, Ambassador John Bolton, former U.S. Permanent Representative to the United Nations, delivered the inaugural Jesse Helms Lecture, "Protecting National Sovereignty in the Age of Obama." Throughout the year, experts in our Douglas and Sarah Allison Center for Foreign Policy Studies did just that, keeping a wary eye on encroachments from international organizations.

For example, Brett Schaefer, our Jay Kingham Fellow in International Regulatory Affairs, closely monitored the Review Conference of the International Criminal Court. His daily reports from Kampala were featured on National Review Online and cited by State Department officials.

Similarly, Steven Groves, our Bernard and Barbara Lomas Fellow, was an official observer at the U.N. global warming conference in Copenhagen. His on-scene reports supplemented the research papers posted on Heritage's "Copenhagen Consequences," the only conservative website dedicated to the conference. The site drew heavy traffic. Better yet, the conference wound up being a major setback for proponents of new international energy controls.

Finally, Margaret Thatcher Senior Research Fellow Ted R. Bromund published a series of papers exposing sovereignty threats arising from conventional arms treaties advanced by the United Nations and the Organization of American States. 



Photos: Chas Geier

At a Jan. 20 National Press Club news conference, (from left) Heritage Vice President Kim Holmes, CDA Director William Beach, and CITE Policy Analyst Anthony Kim brief reporters on America's slide in the Index of Economic Freedom.

# Fighting *for* Families and Economic Independence

## Family & Religion

In 1960, about 6 percent of children were born outside marriage. In 2011, that number had skyrocketed to 40 percent.

That's one reason our DeVos Center on Religion and Civil Society devoted so much of 2010 to marriage — defending the institution itself and also publicizing its remarkable power to prevent and remedy many of our nation's social problems.

The year opened with marriage under assault in two separate court cases. *Perry v. Schwarzenegger* challenged California's voter-approved constitutional amendment defining marriage as between one man and one woman. Visiting Fellow Thomas Messner's "The Price of Proposition 8" provided nearly the entire text of an amicus brief filed by the Institute for Marriage and Public Policy.

Messner's paper also informed numerous editorials and articles on the case, including a Jan. 11 *New York Times* column by Ronald Reagan Fellow Edwin Meese III. When the trial court struck down Prop 8 in August, Meese wrote a *Washington Post* column arguing that the ruling was "too extreme to stand," and praising the court of appeals for staying the trial court's order.

In *Gill v. Office of Personnel Management*, a federal judge in Massachusetts ruled the Defense of Marriage Act, passed by Congress in 1996, was unconstitutional, asserting that it had no "rational relationship to a legitimate government interest." Heritage research forcefully rebutted that notion, demonstrating a wide range



Senior Research Fellow Robert Rector recommends sweeping welfare reforms at a Jan. 20 briefing on Capitol Hill.

of societal benefits—from improved educational outcomes for children in intact families to reduced likelihood of juvenile crime, pregnancy, and drug use—derived from marriage.

Senior Research Fellow Robert Rector summarized the economic side of the issue this way: "Marriage remains America's strongest anti-poverty weapon, yet it continues to decline. As husbands disappear from the home, poverty and welfare dependence will increase, and children and parents will suffer as a result. Current government policies either ignore or undermine marriage. This needs to change."

In July, Rector published a study documenting the failure of the 45-year-old War on Poverty. The percentage of people living in poverty remains essentially unchanged, despite 71 federal relief programs and means-tested benefits that will cost taxpayers more than \$10 trillion over the next 10 years.

Rector called for a fundamental rethinking of federal strategy and outlined a more effective and affordable approach that included:

- Making committed marriage a centerpiece of welfare policy, and eliminating the "marriage penalty" inherent in many current programs;
- Capping aggregate spending on these welfare programs;
- Treating a portion of aid to able-bodied adults as a loan to be repaid rather than a free gift. 📌

## *Better Living through Free Markets*

Heritage marketed several educational product lines promoting free-market policies as the best way to preserve human dignity and build strong, family-friendly communities.

- *The Economy Hits Home*, a series of six booklets, breaks down key economic issues and explores how they affect family life.
- *Indivisible*, a collection of essays by prominent social and economic conservatives—each writing on the other's topic—shows the connectedness and coherence of conservative principles.
- *Seek Social Justice*, including a six-lesson DVD and small-group study guide, helps young evangelicals understand poverty, social breakdown and what to do about them.

By year's end, more than 15,000 *Economy Hits Home* booklets, 7,800 *Seek Social Justice* workbooks and 5,300 DVDs were in circulation. A partnership with LifeWay promises even wider distribution of *Seek Social Justice* in 2011. 📌

# Encouraging Eco- and Econ-friendly Energy Production

## Energy & Environment

Throughout 2010, Heritage fueled challenges to ruinous legislative proposals drafted to fight global warming.

**D**efinitive research from our Center for Data Analysis revealed that the Waxman-Markey cap-and-trade bill—the House proposal to tax carbon emissions—would reduce GDP by \$9.9 trillion, cost 2.5 million jobs... and lower average temperatures by a mere fraction of a degree over the next century.

Momentum for a cap-and-trade measure vanished, as Heritage publicized the facts. (Technorati, an Internet search engine that indexes some 113 million blogs, rated Heritage's The Foundry among the top five "green" blogs.) A watered-down version barely passed the House. A Senate initiative

went nowhere. By November, even President Obama backed away, declaring, "Cap-and-trade was just one way of skinning the cat."

Unfortunately, there are other ways to inflate costs, discourage innovation, and crash the economy in the name of environmental protection. One way is to impose an unworkable Renewable Electricity Standard, an idea floated midyear by the green lobby. Heritage deflated this trial balloon with another CDA analysis documenting its onerous economic consequences. Once it made the rounds on Capitol Hill,

Photo: Hannah Sternberg



Research Fellow Jack Spencer outlines a free-market solution for nuclear waste management in Aug. 30 testimony for the Blue Ribbon Commission on America's Nuclear Future.

plans to begin hearings on the proposal were quietly shelved.

There are, of course, practical ways to address America's very real energy problems. One of them is to modernize and expand nuclear power production—without federal subsidies or other government assistance.

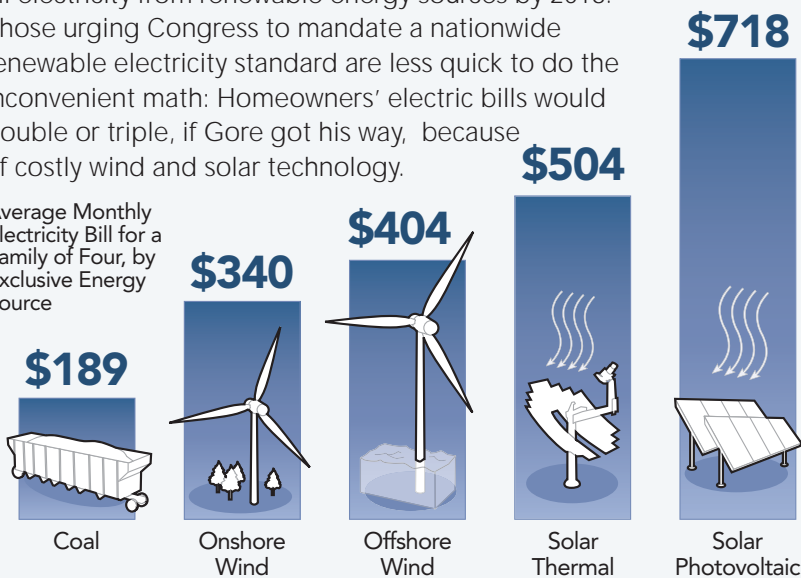
Yet the Obama Administration proved no friend to nuclear power generation. It tried to scuttle the Yucca Mountain waste storage project—a move we promptly denounced. Our vigorous defense of the plan paid off in June, when the Atomic Safety and Licensing Board — using an argument first advanced in a Feb. 23 WebMemo by Heritage Research Fellow Jack Spencer—rejected the attempt to halt the project.

Spencer also supplied a silver lining for the otherwise egregious climate change bill offered by Sen. John Kerry (D-Mass.) and Joe Lieberman (I-Conn.). The bill's section on nuclear power lifted, almost verbatim, Spencer's proposal for reforming regulation of the nuclear industry. Its inclusion in the lead Senate bill signaled that Heritage recommendations would be part of the new "baseline" for nuclear legislation in 2011. 🏠

### Wind and Solar Generate...Even Higher Electric Bills

Al Gore calls on America to forsake coal and generate all electricity from renewable energy sources by 2018. Those urging Congress to mandate a nationwide renewable electricity standard are less quick to do the inconvenient math: Homeowners' electric bills would double or triple, if Gore got his way, because of costly wind and solar technology.

Average Monthly Electricity Bill for a Family of Four, by Exclusive Energy Source



Source: Heritage Foundation calculations using data from U.S. Energy Information Administration.

# Innovative Policies, Distinguished Fellows

On Aug. 27, Stuart M. Butler—the leader of Heritage’s domestic policy research team for nearly 30 years—became Director of our new Center for Policy Innovation (CPI)...and our newest Distinguished Fellow.



Photo: David Hills

Stuart Butler

**B**utler’s latest brainstorm, CPI is focused on devising breakthrough strategies to solve seemingly intractable problems. “Think of us as the ‘iPod division’ of Heritage,” he says. “Our task: to develop radically innovative solutions based on time-tested, conservative principles.”

And he’s not thinking small. “One of our first projects is to figure out how to break the congressional paralysis on dealing with the nation’s long-term fiscal crisis,” Butler says. He’s assembling a “virtual think tank” of political scientists, game theorists and policy experts to devise strategies and legislative procedures to break the impasse. 🗳

## *Heritage Fellows—Distinguished Leadership in the Battle of Ideas*

Home to scores of the nation’s top policy experts, Heritage honors six as Distinguished Fellows. In addition to Stuart Butler, those whose profound scholarship, range of experience, and height of achievement have merited recognition are:

**Elaine Chao**—A former Secretary of the U.S. Department of Labor, President and CEO of United Way of America and Peace Corps Director, Ms. Chao now concentrates on trade, job creation, and workforce issues.

**Lee Edwards**—The leading historian of the conservative movement, Dr. Edwards published his 20<sup>th</sup> book in 2010, as well as two installments of Heritage’s *First Principles* series. He also chairs the Victims of Communism Memorial Foundation.

**Ernest Istook**—A 25-year veteran of elective office, Istook served 14 years in the U.S. House of Representatives. Intimately familiar with the appropriations process, Istook focuses primarily on budget and spending issues.

**Edwin Meese III**—The former U.S. Attorney General and Counselor to President Reagan, Mr. Meese is our Ronald Reagan Distinguished Fellow in Public Policy. An elder statesman in the conservative movement, he also chairs our Center for Legal and Judicial Studies.

**Jim Talent**—A veteran of both the House and Senate Armed Services Committees, Talent remains a dogged proponent of military preparedness. Last year his former Hill colleagues selected him to serve on the independent panel reviewing the Pentagon’s Quadrennial Defense Review. 🗳

## *The Named Fellows of Heritage*

In 2010, Heritage donors funded 12 fellowships to promote concentrated study of issues vital to restoring constitutional principles:

*Marilyn and Fred Guardabassi Fellow in Media and Public Policy Studies*

Kenneth McIntyre

*Grover M. Hermann Fellow in Federal Budgetary Affairs*

Brian M. Riedl

*Chung Ju-Yung Fellow for Policy Studies*

Peter Brookes

*Jay Kingham Fellow in International Regulatory Affairs*

Brett D. Schaefer

*F.M. Kirby Research Fellow in National Security Policy*

Baker Spring

*Bernard and Barbara Lomas Fellow*

Steven Groves

*Herbert and Joyce Morgan Senior Research Fellow*

Ronald D. Utt, Ph.D.

*Ronald Reagan Distinguished Fellow in Public Policy*

Edwin Meese III

*William E. Simon Fellow in Religion and a Free Society*

Ryan Messmore

*Margaret Thatcher Senior Research Fellow*

Ted R. Bromund, Ph.D.

*Norman B. Ture Senior Fellow in the Economics of Fiscal Policy*

J.D. Foster, Ph.D.

*Jay Van Andel Senior Analyst in Trade Policy*

Bryan Riley

# Growing *the Ranks of the* Conservative Movement

Heritage has always been the most broadly supported think tank in America. But never have so many joined the Heritage family.

**W**e began 2010 with 582,000 members. We closed with an astonishing 710,000, a 22 percent increase that carries us ever closer to our goal of 1 million members by 2017.

Members old and new were generous in their support, contributing almost \$73 million to Heritage—a record high. But that wasn't all. They also contributed handsomely to Heritage Action for America.

We launched this independent grassroots advocacy organization in April. Its mission: to press lawmakers to adopt Heritage policy solutions. Thanks to your financial support, totaling \$3 million in just nine months, Heritage Action, under the leadership of CEO Michael Needham, was able to push successfully for extension of the Bush tax cuts and to give advocates of ObamaCare and the New START Treaty the fight of their lives.

As Heritage membership expanded,

so did our member-led activities. We proudly launched two new Community Committees in North Carolina and Seattle, Wash. Overall, more than 15,000 people attended beyond-the-Beltway Heritage events in 2010. And our President's Club meeting in December drew a record crowd of 1,100. Featured speakers included Newt Gingrich, Fred Barnes, Virginia Attorney General Ken Cuccinelli, and Sen. Jim DeMint, R-S.C.

In keeping with our commitment to cultivate the next generation of conservative leaders, Heritage reached out to younger conservatives through our Young President's Club, open to those on the sunny side of 40. YPC welcomed nearly 700 new members, bringing total YPC membership to over 1,600. Our internship program provided graduate-level training—and real-world policy experience—to 177 young people. Our Young Leaders Program traveled to 16 states, briefing more than 50 collegiate groups on conservative principles.

Our "virtual" connections reached record numbers of people as well:

- We redesigned our main website, [heritage.org](http://heritage.org), to give visitors faster and easier access to our products. The result: more than 6.8 million unique visitors for the year and more than 2 million page views monthly.
  - Morning Bell, our daily wake-up e-mail for conservatives, rang up 162,000 subscribers, an increase of more than 10 percent.
  - More than 400,000 people now receive Member Briefing, our twice-weekly e-newsletter tracking Heritage's impact on policy debates.
  - In the world's most popular social medium, Facebook, Heritage's list of "friends" reached nearly 300,000—more than either political party or major media outlets such as *The Washington Post* and *USA Today*.
  - Our Twitter following tripled, to 95,000.
- We're thankful that we've been

## *Thank You for Your Leadership*

The Heritage Foundation is thrilled that more than 864,000 donors have supported the Leadership for America campaign. Between the launch of the campaign in January 2007 and the end of 2010, we have received gifts, pledges and commitments totaling more than \$362,191,000.

We'd like to take this opportunity to especially thank those donors who have made particularly generous contributions and commitments totaling \$1 million or more, including:

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Six members have asked to remain anonymous.



Photo: Chas Geer

President Edwin Feulner flanked by our spring 2010 interns and staff of our Young Leaders Program.

able to reach so many more Americans, and that so many have chosen to become Heritage members. We know that you have joined because of our shared commitment to this great nation's founding principles, and you

may be sure that The Heritage Foundation will remain true to those ideals as we develop and promote effective policy solutions for America.

And, if you plan to visit Washington, please call our member-

ship office at (800) 546-2843. We welcome the chance to give you a tour of our offices and to thank you personally for helping make Heritage the leading conservative organization in America. 🗺

### Local Member Meetings

Heritage launched two new Community Committees in 2010—in North Carolina and Seattle—bringing the total number of formal committees to 14. And members were able to attend fascinating lectures and panel discussions in even more areas, thanks to volunteer hosts throughout the land. In 2010, Heritage arranged local and regional member events in 25 locations beyond Washington, D.C. Notable speakers at these gatherings included Karl Rove, Steve Forbes, John Stossel, Steve Moore, Rep. Paul Ryan, R-Wis., and Minnesota Gov. Tim Pawlenty.



- ★ Atlanta
- ★ Austin
- ★ Bay Harbor
- ★ Cambridge
- ★ Chicago
- ★ Colorado Springs
- ★ Dallas/Fort Worth
- ★ Denver
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- ★ Essex
- ★ Greensboro
- ★ Kalispell
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- ★ Naples
- ★ Nashville
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- ★ Omaha
- ★ Raleigh/Durham/Chapel Hill
- ★ San Francisco Bay Area
- ★ Seattle
- ★ Southeast Michigan
- ★ Southern California
- ★ Saint Louis
- ★ Tucson
- ★ West Palm Beach
- ★ Washington, D.C.



## Heritage Legacy Society

The Heritage Foundation thanks the following Heritage Legacy Society members who made commitments in 2010. We are grateful for their leadership in creating a better America and leaving a legacy for freedom for future generations. The Heritage Legacy Society, whose members have made commitments through their estate or other planned gifts, is co-chaired by Rae and Belden Bell of Marshall, Va., and Marion Wells of Ft. Lauderdale, Fla.

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*Twenty-three Heritage Legacy Society  
 members wish to remain anonymous.*

### ***With gratitude, we honor the memory of those Heritage Legacy Society members whose gifts we received in 2010:***

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 Mrs. Barbara Wells

## 2010 Financial Statements

### STATEMENT OF FINANCIAL POSITION\*

As of December 31, 2010

#### ASSETS:

|                             |                   |
|-----------------------------|-------------------|
| Cash & cash equivalents     | \$ 4,890,432      |
| Receivables                 | 11,100,305        |
| Prepayments & other assets  | 1,310,709         |
| <b>Total current assets</b> | <b>17,301,446</b> |

|                                  |                    |
|----------------------------------|--------------------|
| Investments                      | 121,302,195        |
| Receivables, net                 | 5,292,728          |
| Plant, property & equipment, net | 50,935,812         |
| Other assets                     | 438,474            |
| <b>Total long-term assets</b>    | <b>177,969,209</b> |

**TOTAL ASSETS** **\$ 195,270,655**

#### LIABILITIES & NET ASSETS:

|                                     |                  |
|-------------------------------------|------------------|
| Accounts payable & accrued expenses | \$ 9,172,852     |
| Notes payable                       | 193,333          |
| <b>Total current liabilities</b>    | <b>9,366,185</b> |

|                                      |                   |
|--------------------------------------|-------------------|
| Notes payable                        | 5,179,035         |
| Deferred obligations & planned gifts | 16,795,518        |
| <b>Total long-term liabilities</b>   | <b>21,974,553</b> |

**TOTAL LIABILITIES** **31,340,738**

|                                   |                    |
|-----------------------------------|--------------------|
| Unrestricted net assets:          |                    |
| Board designated                  | 98,279,052         |
| Undesignated                      | 45,124,979         |
| Temporarily restricted net assets | 19,225,886         |
| Permanently restricted net assets | 1,300,000          |
| <b>Total net assets</b>           | <b>163,929,917</b> |

**TOTAL LIABILITIES & NET ASSETS** **\$ 195,270,655**

### STATEMENT OF ACTIVITIES\*

Year ended December 31, 2010

#### OPERATING REVENUE

|                                      |                   |
|--------------------------------------|-------------------|
| Contributions:                       |                   |
| Individuals                          | \$ 55,771,180     |
| Foundations                          | 12,145,565        |
| Corporations                         | 3,401,899         |
| <b>Total operating contributions</b> | <b>71,318,644</b> |

|                                     |                   |
|-------------------------------------|-------------------|
| Investment withdrawal               | 7,725,000         |
| Program revenue                     | 474,069           |
| Rental & other income               | 2,160,162         |
| <b>Total other operating income</b> | <b>10,359,231</b> |

**TOTAL OPERATING REVENUE** **81,677,875**

#### OPERATING EXPENSES

|                              |                   |
|------------------------------|-------------------|
| Program expense:             |                   |
| Research                     | 28,116,528        |
| Education                    | 20,927,227        |
| Media & government relations | 11,938,882        |
| <b>Total program expense</b> | <b>60,982,637</b> |

|                                     |                   |
|-------------------------------------|-------------------|
| Fundraising                         | 16,436,836        |
| Management & general                | 2,958,778         |
| <b>Total administrative expense</b> | <b>19,395,614</b> |

**TOTAL OPERATING EXPENSES** **80,378,251**

**NET GAIN FROM OPERATIONS** **1,299,624**

#### NON-OPERATING ACTIVITIES

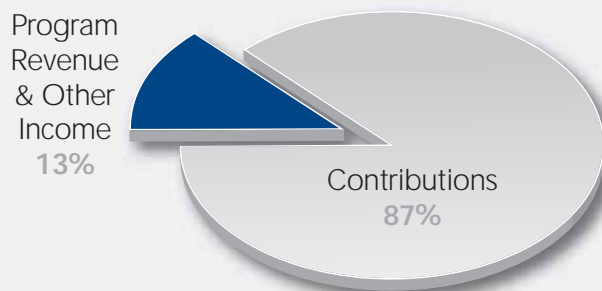
|  |                  |
|--|------------------|
| Contributions & temporarily restricted changes | 1,894,188        |
| Investment gain                                | 12,266,535       |
| Investment withdrawal                          | (7,725,000)      |
| <b>TOTAL NON-OPERATING ACTIVITIES</b>          | <b>6,435,723</b> |

**INCREASE IN NET ASSETS** **7,735,347**

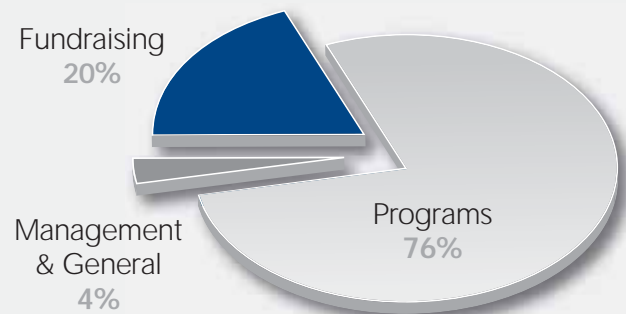
**NET ASSETS-Beginning of year** **156,194,570**

**NET ASSETS-End of year** **\$ 163,929,917**

### 2010 Operating Revenue



### 2010 Operating Expense



\*Preliminary results. Final audited financial statements will be available on or after July 31, 2011.

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\*NOTE: Some listings on these pages reflect combined contributions to both *The Heritage Foundation* and *Heritage Action for America*.

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*Forty-seven Associates have asked to  
remain anonymous.*

## *Honoring Donor Intent*

When donating to a nonprofit, you expect that organization to use your contribution in keeping with its stated mission. You also expect it to observe any restrictions you place on your gift. Unfortunately, nonprofit organizations have been known to break faith with their mission and their donors.

At The Heritage Foundation, we regard your support as a trust. We hold ourselves strictly accountable to you, and we pledge always to respect your philanthropic intent.

The sanctity of donor intent is stated explicitly in our Articles of Incorporation. Moreover, the President of Heritage is personally responsible for answering donor questions and reporting expenditures of donor funds.

From the boardroom to the mailroom, everyone at Heritage understands our obligation to our members. That's why our Board of Trustees makes this formal pledge to every donor:

*“We will always respect your philanthropic intent and always hold ourselves accountable to you in our use of your generous contributions.”*

For a free brochure about donor intent, please call our membership line at (800) 546-2843. And, if you ever have any questions about your contributions or a complaint about the way we spend them, please contact us immediately. We will make sure that your questions are answered and your problems resolved. 📞



*Heritage Associate Vince Kolber (left), Chairman of the Chicago Community Committee, with President Ed Feulner at the Fall President's Club Meeting.*



*Ed Feulner enjoys a moment with Heritage Legacy Society Members Barbara and John Rumpel at the Fall President's Club Meeting.*



*Betty Anderlik, a Heritage Founder, tours the Anderlik floor of our new 227 Pennsylvania Ave. building on opening day.*



*Heritage Founder Diana Spencer with Rep. Mike Pence, R-Ind. (left), and Ed Feulner at the Spring President's Club Meeting.*



Premier Associate Tony Saliba and family – Moira (left), Anthony and Magdalena—cut the ribbon opening our 227 Pennsylvania Ave. building as President Ed Feulner and Chairman Tom Saunders (right) look on.



Executive Committee Members Bob and Barbara Hathorne join Ed Feulner (left) at the welcome reception of the Spring President's Club Meeting.

Photo: Chas Geer

Photo: Chas Geer



Photo: Chas Geer

Michael Needham (left), CEO of Heritage Action for America, and Heritage Associate John Lewis, a member of the Dallas/Fort Worth Committee, visit at the Spring President's Club Meeting.



Photo: Chas Geer

Founder Herb Morgan (right) and his son, Mark Morgan (left), join Vice President and Senior Counselor John Von Kannon at the Supreme Court dinner honoring Edwin Meese.



Photo: Michelle McMinn

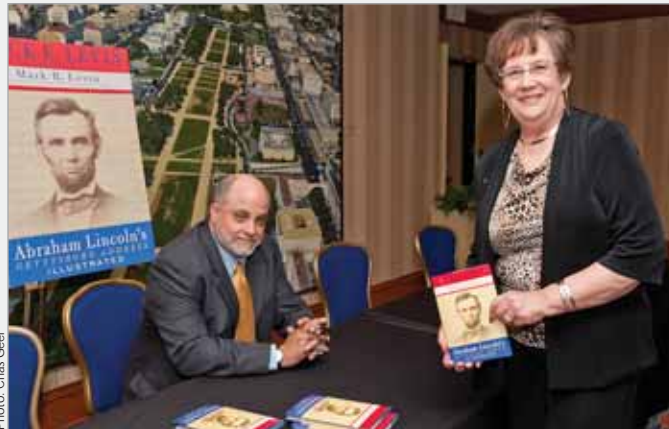


Photo: Chas Geer

Legacy Society Member Mary Jo Thielen, who also chairs the Omaha Committee, came away with talk radio host Mark Levin's autograph at a President's Club book-signing event.

Founder Jerry Grossman questions a panelist at Heritage's annual Board Meeting and Leadership Conference in Naples, Fla.

# Building a Better Future

Exciting new developments in 2010.

A fixture on the Senate side of Capitol Hill since 1973, Heritage opened a House Annex building on Sept. 14, just two blocks from the Cannon House Office Building. Its four conference rooms were soon buzzing with briefings for House members and senior staff.

Three of those conference rooms memorialize generous donations from Thomas Colbert, Berniece and William Grewcock, and Henry E. Haller, Jr. Other named spaces include: the Joseph C. and Elizabeth A. Anderlik Executive Floor, the Michael Jude Lobby, the Mark A. Kolokotronis Executive Office Suite, the Saliba Family

Foundation Staff Offices, the Robert and Audrey Zinser Executive Office and, of course, the Voss Brothers' Executive Restroom.

## Heritage Action for America

In April, our Board of Trustees approved creation of a new, sister organization: Heritage Action for America. A grassroots advocacy group, Heritage Action lobbies lawmakers on key legislation. Its first major projects: maintaining the Bush-era tax rates, repealing ObamaCare, and preserving our nation's missile defense program.

## Membership Levels at a Glance

Heritage membership increased by 128,000 in 2010. Members choose from among 14 levels of support to advance solutions for America.

| Level                    | Starting at |
|--------------------------|-------------|
| Basic                    | \$25        |
| Supporting               | \$50        |
| Patriots Club            | \$100       |
| Sponsoring               | \$250       |
| Young President's Club   | \$250       |
| President's Club         | \$1,000     |
| Executive Committee      | \$2,500     |
| Premier President's Club | \$5,000     |
| Associate                | \$10,000    |
| Executive Associate      | \$25,000    |
| Premier Associate        | \$50,000    |
| Founder                  | \$100,000   |
| Trustees' Circle         | \$500,000   |
| Chairman's Circle        | \$1 million |

For details on benefits for each level, please call (800) 546-2843 or visit [MyHeritage.org](http://MyHeritage.org).



*Heritage's new House-side building at 227 Pennsylvania Ave., SE, opened for business Sept. 14.*



Photos: Chas Geer

*Heritage Action CEO Michael Needham thanks supporters and well-wishers at the July 21 reception marking the debut of the grassroots advocacy group.*





## ***What They're Saying about Heritage...***

***"A powerhouse of conservative ideas... If anything, its influence has grown in 'opposition'.... Its econometric analyses of the House of Representatives cap-and-trade proposals have stopped legislation in its tracks."***

***– The Daily Telegraph, Jan. 14, 2010***

***"Each day it becomes more obvious the tremendous job The Heritage Foundation is doing. Keep up your good work."***

***– Mr. and Mrs. John S. Abbott, President's Club Members***

***"Signatures on the discharge petition have come more quickly than I had expected. This has been partly due to a large number of co-sponsors on the [ObamaCare] repeal bill, but it also demonstrates the effectiveness of the efforts of the Heritage Action Team..."***

***– Rep. Steve King, R-Iowa***

***"We appreciate your organization's efforts to temper government regulation and protect private property rights in accordance with the basic tenets of the Constitution of the United States of America"***

***– Morris A. Crady, President, Kantner Foundation, Inc.***

***"The reason the left is so fearful...is because Heritage is so established across the nation."***

***– Erick Erickson, RedState.com***

***"You keep up with all legislation that is so crucial to our Country remaining as our Forefathers envisioned. Your presence and work is a Godsend... Thanks."***

***– Karen Cooper, Member***



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