

Remarks at AEI Chairman's Dinner
Reynolds Center for American Art and Portraiture
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We have a rule of style at AEI never to begin a talk or letter on the assumption that people want to know about your personal state of mind. The formal rule is: *Do not begin with "I am pleased ..." or "I am happy ..." unless you are the Queen of England.* You all have me feeling like a king this evening, so let me begin by saying that I am pleased, and very, very happy, to be surrounded by my beloved family, and cherished colleagues, and best friends going all the way back to those 1950s glory days on the Joseph Sears Blues football team, and including many people who have profoundly influenced me, usually for the better, by your example, teaching, companionship, and love.

One of the closest is Bruce Kovner. Bruce and I go back 42 years to when we were loitering around Littauer Hall at Harvard, hoping to catch a little face time with our intellectual heroes James Q. Wilson and Edward C. Banfield. We have shared many adventures and enthusiasms, from New Jersey politics to high culture, which just about covers the waterfront of human endeavor. Since 1989 Bruce has been a trustee of AEI, then Vice Chairman, and then Chairman of the Board since 2002. I have sometimes found it a bit awkward to have my old friend as my boss. But for Bruce it has been, as the kids say, no problem. He has never shown any interest in crony nonproftism. He has demanded the highest standards of scholarship and management and been supportive or critical as the circumstances warranted. And in his quiet, modest way he has been astoundingly generous. Just this year he has inspired his fellow trustees to pony up a Trustees Endowment of \$75 million, which will help to bring AEI's financial strength up to par with its intellectual strength.

We are engaged in a double transition at AEI—three weeks from today when I hand the president's baton to Arthur Brooks, Bruce will hand the chairman's baton to Kevin Rollins. So it is time for a tangible expression of our gratitude. At the end of a long day Bruce has a choice: he may sit down with an AEI book, or sit down at

the piano with Brahms or Chopin. He will continue to be an AEI trustee and we need to stay in the game; we hope to tempt him with this set of leather-bound editions of thirty of AEI's most important books during his tenure, which comes with our great affection and admiration.

Two individuals have been at my side throughout my tenure and have contributed immensely to AEI's success and prosperity. David Gerson, AEI's executive vice president, has been my constant partner and alter ego. Jim Wilson, the chairman of AEI's Council of Academic Advisers, has been my teacher in the largest sense of the word throughout my adult life. I also want to mention my great friend and soul-mate Dan Searle, who died a year ago, two weeks after I had confided to him my succession plans for AEI and won his considered approval. Beginning in January I will be holding AEI's newly established D. C. Searle Chair.

Arthur Brooks and I would like to convey our joint thanks to George Bush and Barak Obama for setting such a fine example of how transitions of power should be conducted. Arthur has told me that he particularly admires how President Bush is ceding power to the new regime with such grace and deference. I have told Arthur that I particularly admire how President-elect Obama has shifted his emphasis from change to continuity—from dwelling on the shortcomings of the old regime to recognizing its many good features which should be emulated and continued.

Twenty-two years ago this week I was called to the platform at the AEI annual dinner by Board Chairman Bill Butcher, accompanied by Gerald Ford, Henry Wendt, and Dave Packard, and introduced as AEI's new president. That evening I offered a supply-side account of AEI's mission:

Ideas have consequences, but there is no principle that says the best ideas are the most consequential; and without them government risks becoming nothing but a scramble for resources. To attempt disinterestedly to study and understand the issues facing our country, to be engaged in policy debate without being preoccupied with the headlines of the moment, to offer blunt criticism without losing sight of the great virtues of our political system—these services are not in urgent day-to-day demand in Washington; yet Washington cannot survive without them. . . . AEI's specialty is to advance the long-run view in a short-run city.

Today we can say that AEI has continued to fulfill its special calling, honorably and effectively, for another twenty-two years on top of its previous forty-two. Yet we now find ourselves at a moment that feels extraordinarily grave and ominous, and we sometimes ask ourselves whether our age-old philosophy will continue to be welcome or useful. At such times it is important to hold to the long-run view. Politics and markets are filled with the most astonishing surprises in the short run, yet both regress in time to trend lines that reflect fundamental realities.

It is the business of the analyst—in politics and policy, it is the business of AEI—to discern beneath the tumult, and even from the tumult, durable truths and underlying trends. Let me venture two important trend lines consistent with a few recent big surprising data points. The first is auspicious, the second menacing.

The first is that the effort to study and think systematically about government is a progressive enterprise—it is capable of yielding a fair consensus about what constitutes right policy, and when it does, that consensus can move policy in the right direction. Politics is not similarly progressive; it is powerfully influenced by interest groups and by sheer mistake and let's not forget the corruptions of power; and in a nation as vast and heterogeneous as ours, there will always be sharp conflicts of interests and values to be reconciled, which means muddling through rather than seeking truth. Yet the search for the public interest is not quixotic. It is more than a flicker. For one thing, bad policies, especially in economics and security, can produce disastrous harms even in the short run that are evident to anyone paying attention. But attention and interpretation are key. Intellectual leaders in think tanks, and political leaders in the White House, can help with the critical process of public education.

One of the reasons to doubt that the financial crisis will produce not just a hard recession but a 1930s-style depression is that we have a truer knowledge of monetary policy. Back then the conventional wisdom was that because supply and demand were falling sharply, therefore much less money was needed for exchange, therefore the money supply should be sharply contracted. Essentially no one thinks

that way today. That the goal of monetary policy should be price stability is knowledge that was acquired at great cost through decades of study and contentious debate. In facing our current crisis, it is an asset as valuable as the Federal Reserve's balance sheet.

There is a fair professional consensus, equally bipartisan, about certain aspects of tax, trade, and regulatory policy, views that are beginning to peak through in the current transition from one political party to another. During the campaign, Senator Obama was unusually clear and vigorous in advancing a detailed policy platform, which included higher taxes on capital, higher taxes on high-earning individuals, new restrictions on international trade, and new efforts to promote unionization—all for purposes of better economic performance and greater social justice. Now there are intimations that these initiatives might be deferred for the duration of the recession. On the surface that seems very strange—better economic performance and greater social justice are especially urgent in a recession, so one would think that higher taxes, less trade, and a more unionized workforce should move up rather than down the agenda. Something else must be happening. Post-campaign, there is even some official recognition that taxing capital is a fool's errand in a global economy.

Irving Kristol once said that America does not face a single serious problem that could not be solved by a hard recession. A President, much more than an office-seeker, is in a position to be a teacher; indeed he and his top officials cannot help but be teachers, for better or worse, through their deeds and words. Our new President obviously has the capacity and the desire to be a great teacher. In economic policy, the Republicans have not done a particularly good job at this component of political leadership. It is altogether fitting that the Democrats will now have their turn. We at AEI will be doing our part as well.

The second, adverse trend is the unprincipled scramble for resources that I mentioned twenty-two years ago, now in an ominous new form. I refer to the intermingling of politics and power with finance and commerce, going beyond

government regulation to the government as direct owner and market participant. A new phenomenon of Fusion Enterprise is growing from the recent extemporizing in response to the financial crisis, but now involves increasingly bold and purposive action. It is clear beyond cavil that Fannie Mae and Freddie Mac were prime culprits behind the housing and credit collapse—so one would have thought that, in disgrace, they would be placed on course to privatization or liquidation, perhaps to be replaced by more transparent, responsible means of promoting homeownership. Instead they are to be redeemed with taxpayers' money and reestablished as political-financial juggernauts. At the same time, the government has become major de facto owner of a leading insurance company and several major banks, and perhaps soon an automobile company or two as well.

Absent the financial crisis none of these things would have happened, and those who are administering the rescue efforts have no thought that they are doing anything but strengthening balance sheets and unlocking markets. But now that the situation on the ground has changed many in Congress have discovered that they have big ideas about how insurance services and banking services and automobiles ought to be designed and sold, just as they did about home mortgages. Meanwhile, the leading new proposal for health care reform looks eerily similar—with the government to operate its own huge health insurance company in competition with private firms. The momentum is toward GSEs—Government Sponsored Enterprises—throughout the financial sector, feeling its way into the commercial sector.

One can have a good libertarian laugh at the prospect of a post office bank or car company competing with UPS and FedEx banks and car companies. But the experience of many other nations, and our own with Fannie and Freddie, is sobering. Financial firms operating on the principles of coercion and patronage rather than voluntary exchange can have real staying power, can easily co-opt and infect private firms, and can produce social wreckage that becomes apparent only over long periods of time. Will the business community, our bastion of private enterprise,

resist? Already, the government appointed CEO of AIG is boasting to his customers and others that his firm is much better capitalized—that is by Washington—than the mere private firms it competes with, and several of those rivals are lining up for their shares. We have no economic theory, and only fragmentary casual examples, to resist this half-way house between comprehensive socialism on the one hand and conventional regulation on the other, where the distinction between private and public had been reasonably clear. We—those of us in the world of independent policy research—will have to devise new methods of research, analysis, and argument to keep up with the growth of Fusion Enterprise.

I want to conclude with a word about my baby, the American Enterprise Institute, that I am about to let go of. It has been said that my leadership of AEI has been selfless, even self-sacrificing. Now any departure from rationally self-interested behavior is a dagger at the heart of our philosophical precepts, so I would like to set the record straight. I am of the view that AEI's work is, at its best, miraculous. The mind of man has produced many practical miracles of late—the iPhone, the Internet. But nothing that compares to the pure intellectual feat of producing knowledge where there had been none, transforming confusion into clarity, organizing the blur of experience into words and figures and arguments that are persuasive to the human mind, and transmitting them to millions of people whose understanding of their world is thereby deepened and improved, including many in a position to use it to effect tangible improvements. Believing as I do that this is a miracle, I would say that if my twenty-two years of stewardship had produced one such miracle, I would feel richly compensated and happily justified. Instead it has produced many hundreds, of such miracles, crystallized for all time in books such as these and in reports and essays. This I find to be overwhelming. To have worked in the presence of the wonderful colleagues who have produced these miracles, and to have know the hard and vexing labor and many missteps along the way that have produced them, is beyond anything than I could have wished for.

On days such as today's Board of Trustees meeting, and especially at times such as our current transition, we spend a great deal of time evaluating our strengths and weaknesses and what we need to do to improve our finances and dissemination and prepare ourselves for the future. These are tremendously important matters involving many uncertainties. But I know one thing for certain: that for as long as AEI remains a place where miracles can occur, its position will be secure, and it will continue to be esteemed and drawn upon as a font for better government and the progress of human freedom.

Permit me to end with a little poem—"The Sound of Trees," by Robert Frost.

I wonder about the trees.
Why do we wish to bear
Forever the noise of these
More than another noise
So close to our dwelling place?
We suffer them by the day
Till we lose all measure of pace
And fixity in our joys,
And acquire a listening air.
They are that that talks of going
But never gets away;
And that talks no less for knowing,
As it grows wiser and older,
That now it means to stay.
My feet tug at the floor
And my head sways to my shoulder
Sometimes when I watch trees sway
From the window or the door.
I shall set forth for somewhere,
I shall make the reckless choice
Some day when they are in voice
And tossing so as to scare
The white clouds over them on.
I shall have less to say,
But I shall be gone.

From the bottom of my heart, thank you for your friendship and support and for this lovely evening.