



LEADING THE FIGHT FOR
**FREEDOM &
OPPORTUNITY**

ANNUAL REPORT

2012



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The Heritage Foundation

Leading the Fight for Freedom & Opportunity

OUR MISSION: 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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A Land of Opportunity, Still

Message from the Chairman and the President

“America is a great country because in every crisis it finds ways to renew itself. Leaders emerge. Men and women of courage, character and vision step up, ... make the hard decisions and lead America forward.”

EDWIN J. FEULNER AND BRIAN TRACY,
THE AMERICAN SPIRIT, 2012



Barnett Photography

Top: Sen. Jim DeMint addresses an all-staff meeting Dec. 6 in Allison Auditorium. Just minutes earlier, Heritage Chairman Tom Saunders and President Ed Feulner (seated right) had introduced him as Heritage’s President-elect. **Above:** Tom Saunders (left) and Ed Feulner flank Clare Boothe Luce Award winners Midge Decter and Norman Podhoretz.

It was a year of great drama and disappointment. Arab Spring turned to Islamist Winter ... the Supreme Court upheld Obamacare ... the Pentagon absorbed another \$400 billion budget cut ... and entitlement spending raged out of control as Washington sped to the edge of the Fiscal Cliff.

Yet 2012 also yielded some significant advances. Domestic energy production soared—despite Washington’s best efforts to limit exploration and drilling. Governors in labor-dominated Wisconsin and Michigan blunted the self-serving power of unions. And the presidential contest showed that Social Security and Medicare reform was no longer the “third rail” of politics.

The roller-coaster year proved once again that, even amid setbacks and adversity, there is opportunity to advance conservative policies and values. And Heritage acted to make the most of those opportunities for years to come.

In December, the Board of Trustees named a worthy successor to Heritage President Ed Feulner. Senator Jim DeMint agreed to take the helm, effective April 3, 2013. With his leadership, we are confident Heritage will achieve more and even greater successes far into the future.

At Heritage, we don’t underestimate the challenges ahead. We see the problems clearly. But we also see the solutions.

Our country can be truly great again. At Heritage, we are laying the groundwork for a conservative comeback. We have a senior management team with unparalleled vision. And we have the nation's best researchers and analysts. All are committed to developing and promoting policies that will assure the next generation of Americans has the opportunity to pursue their dreams and better their communities through the free exercise of their abilities.

Achievements in the Face of Adversity

Conservatives took some very tough losses in 2012. Yet every set back also presented a fresh opportunity for future victories. Take the Supreme Court decision on the Patient Protection and Affordable Care Act ("Obamacare"). The majority upheld provisions that require employers and individuals to purchase government-approved health coverage whether they want it or not. Most observers agreed that the anti-mandate arguments—first raised by Heritage—seemed by far the strongest. So Chief Justice Roberts' ruling that mandates weren't really mandates—just taxes—was a huge disappointment.

Yet the same ruling also provided an opening for future success in derailing the misguided law. How? The justices held the feds could *not* force states to extend Medicaid coverage to previously ineligible Americans by threatening to withdraw existing Medicaid funding.

With the Medicaid expansion ruled optional, Heritage health policy experts immediately got to work,

educating state officials about the tremendous liabilities associated with adding millions of Americans to an already struggling Medicaid program. In many cases, the long view is prevailing. By year's end, only 15 governors had committed to expand Medicaid.

Also encouraging: Our message that the numerous taxes created under Obamacare would wreak economic havoc began to resonate—even in "progressive" quarters. In December, 16 liberal senators—all of whom had voted for Obamacare—petitioned Senate Majority Leader Harry Reid to delay the law's job-killing tax on medical devices.

At year's end, one thing was clear: Obamacare remained deeply unpopular with the American people. And despite the Court's adverse ruling on the mandate, the program's ultimate fate was still unsettled.

Heritage's ideas prevailed elsewhere—both before and after the elections. For example, liberals attempted to gain Senate approval of three treaties. All three carried a long-term risk of ceding power to international organizations, undercutting American sovereignty.

After scores of briefings by Heritage analysts, all three pacts failed. The Law of the Sea Treaty was pulled back in July, never to reappear. The UN Arms Trade Treaty was tabled that month as well. In December, the Senate refused to ratify the UN Disability Rights Treaty.

Heritage logged other post-election wins as well: President Obama signed a bill establishing Permanent Normal Trade Relations with Russia. The measure included Heritage-recommended provisions enabling the U.S. to impose sanctions on Russian officials who



abuse human rights. The bill thus simultaneously advanced U.S. economic interests and affirmed our status as a champion of international human rights.

Also in December, Taiwan was admitted to the Visa Waiver Program, and the wrong-headed Cybersecurity Act of 2012 went down to defeat for a second time.

Heritage homeland security analysts cheered both actions.

Perhaps most encouraging, our *Saving the American Dream* plan to right-size the federal government and put the nation's fiscal house in order gained ground. In May, Senator Mike Lee (R-Utah) introduced a budget proposal entirely based on our plan. Lee's proposal, observed *The Hill* newspaper, "calls for a 25 percent flat income tax rate, transforms Social Security ... and contains a Medicare premium support option. It would balance the budget by 2017 by cutting spending by \$7 trillion."

Lee's bill garnered 17 votes in the Senate—17 more than President Obama's budget. More importantly, the Congressional Budget Office's "scoring" of the proposal demonstrated that Washington can, in fact, eliminate the deficit without raising taxes.

Preparing for Continued Success

Heritage itself underwent some major transitions during 2012. We welcomed Chicago financier Anthony J. Saliba to our Board of Trustees. Profiled in the best-selling *Market Wizards*, Saliba is the executive managing director of the BNYConvergEx Group.

Our Senior Management team underwent major changes, as well.



Heritage in 2012 ... BY THE NUMBERS

194 PUBLIC LECTURES AND SEMINARS

315 ISSUE BRIEFS

120 BACKGROUNDER

14 LEGAL MEMORANDA

29 SPECIAL REPORTS

28 CONGRESSIONAL TESTIMONIES

1,400 COMMENTARIES IN MAJOR PRINT OUTLETS

4,000 RADIO INTERVIEWS

1,200 TELEVISION INTERVIEWS

350+ INTERVIEWS WITH SPANISH-LANGUAGE MEDIA

250,000 VISITORS TO LIBERTAD.ORG

11.2 MILLION VISITORS TO HERITAGE.ORG

10 MILLION VISITORS TO "THE FOUNDRY" BLOG

223,000 "MORNING BELL" E-NEWSLETTER SUBSCRIBERS

500,000 FACEBOOK FANS

260,000 TWITTER FOLLOWERS

AND **HUNDREDS OF THOUSANDS** OF MEMBERS

THANK YOU!

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David Hills Photography

THE HERITAGE FOUNDATION SENIOR MANAGEMENT TEAM

(From left): Michael G. Franc, Vice President; Stuart M. Butler, Distinguished Fellow; Genevieve Wood, Vice President; Michael M. Gonzalez, Vice President; John Von Kannon, Vice President and Senior Counselor; David Addington, Senior Vice President; Edwin Meese III, Reagan Fellow; Geoffrey Lysaught, Vice President; Edwin J. Feulner, President; Derrick Morgan, Vice President; James Carafano, Vice President; Sen. Jim DeMint, President-elect; John Fogarty, Vice President; Phillip N. Truluck, Executive Vice President; Matthew Spalding, Vice President; Becky Norton Dunlop, Vice President; Michael Spiller, Vice President; Kim R. Holmes, Distinguished Fellow.

Geoffrey Lysaught was named Vice President for Strategy and Finance. A public policy executive and investment banker, he replaced Ted Schelenski, who retired in May.

Edwin Meese III announced his “semi-retirement.” He remains our Ronald Reagan Distinguished Fellow Emeritus. With the generous support of our donors, Heritage named our legal center the Edwin Meese III Center for Legal and Judicial Studies.

David Addington now heads that center, as Senior Vice President for Legal and Judicial Policy. Derrick Morgan, previously Chief of Staff for Heritage President Ed Feulner, moved into Addington’s old post as Vice President for Domestic and Economic Policy.

Kim Holmes, our longtime Vice President for Foreign and Defense Policy, turned those responsibilities over to his long-time deputy, James Carafano. Now a Distinguished Fellow, Holmes continues to serve on the Senior Management team.

The biggest change of all came with Ed Feulner’s announcement that he would step down as President of Heritage on April 3, 2013—his 36th anniversary here. “Ed Feulner has made Heritage not just a permanent institution on Capitol Hill, but the flagship organization of the entire conservative movement,” Heritage Chairman Thomas Saunders noted at the Dec. 6 all-staff meeting announcing the news.

Saunders went on to introduce Feulner’s successor: Jim DeMint, the South Carolina senator who, over the last decade, organized a contingent of principled conservatives to serve in the U.S. House and Senate. “Today we have combined the most powerful and effective conservative



Face to Face Photography

New in 2012

In July, Heritage Action for America launched “Istook Live!”—our own talk-radio show. Hosted by Distinguished Fellow Ernest Istook, the nationally syndicated show features analysts and public figures discussing the day’s top policy debates ... and what’s happening behind the scenes in Congress.



Lynde and Harry Bradley Foundation

Edwin J. Feulner (left) receives the Bradley Prize from Michael W. Grebe, President and CEO of The Lynde and Harry Bradley Foundation at the Kennedy Center. Said Grebe in presenting the award, “Ed Feulner has elevated the influence of conservative research institutions. ... Under his guidance, The Heritage Foundation has become a bastion of ideas that are an integral part of the national conversation.”

think tank in America with America’s most principled and effective conservative leader,” Saunders said.

That view was echoed by pundits and politicians alike. In *Human Events*, Erick Erickson hailed the appointment as “a bold and brilliant move.” Capitol Hill newspaper *Roll Call* wrote: “The marriage of Sen. Jim DeMint and The Heritage Foundation looks poised to raise the political influence of both the man and the think tank.”

Senator Ted Cruz (R-Texas) summarized the move this way: “Under Ed Feulner, Heritage laid the foundation for the Reagan Revolution; under Jim DeMint, Heritage will [pave the way for] ... a national renewal.”

Thanks to your support and Heritage’s principled leadership—past and present—the opportunity to advance freedom, opportunity, prosperity, and civil society has never been greater. ■

David Hills Photography



Thomas A. Saunders III
Chairman



Edwin J. Feulner
President

In Memorium:



CHARLES GEER

1945–2012

Photographer and longtime friend of Heritage

2012 Honors Given ...

- Midge Decter and Norman Podhoretz, two leading intellectual lights of the conservative movement, received Heritage’s Clare Boothe Luce Award.
- Kevin J. “Seamus” Hasson, founder of the Becket Fund for Religious Liberty, received the Henry Salvatori Prize for American Citizenship.

... and Received

- President Ed Feulner and Distinguished Fellow Ed Meese each received the Lynde and Harry Bradley Foundation’s Bradley Prize for outstanding achievement.
- Feulner also was awarded the Golden Medal of the President of the Czech Republic for his “tireless defense of freedom, individual liberty and free markets.”
- Vice President John Von Kannon received the John Ashbrook Award for service to the conservative movement.
- Forbes magazine named Director Heather Pfitzenmaier one of “30 Under 30” young Americans having the greatest impact on U.S. law and policy. She also received the Young Conservatives Coalition’s Buckley Award
- McClatchy Newspapers named President-elect Jim DeMint one of “10 to Watch in 2013.”

Sound Principles Assure Freedom and Opportunity for All

“A general dissolution of principles and manners will more surely overthrow the liberties of America than the whole force of the common enemy.”

—SAMUEL ADAMS, LETTER TO JAMES WARREN, FEBRUARY 12, 1779

America was founded on ideas—the principles found in The Declaration of Independence and the Constitution and explained in works like the Federalist Papers. It's what marks us as “an exceptional nation.” And to this day, adherence to those founding principles offers the best hope and greatest opportunity to all Americans.

In 2012, a cacophony of partisan rhetoric threatened to drown out that eternal truth. But Heritage wasn't about to let that happen.

We began by framing the national debate in terms of first principles with *Changing America's Course: What's at Stake in 2012* by Heritage Vice President Matthew Spalding.

We took on the class-warriors directly with *Defending the American Dream: Why Income Inequality Doesn't Threaten Opportunity*. This Special Report, prepared jointly by our Center for Principles and Politics and Center for Data Analysis, refuted the notion that government exists to redistribute wealth. It promoted the alternative vision of an “opportunity society.”

By confronting liberal dogma, the report attracted media interest ... even at *The New York Times*. It also became the talk of the Values Voter Summit in Washington, D.C., where Spalding moderated a lively panel on “Income Inequality: Reconciling Capitalism and Compassion.”

Instilling Principles on Capitol Hill

The “political class” remains the group of Americans most in need of the Founders' principles and most likely to flout them. That's why Heritage worked hard to instill a lasting understanding and appreciation of those principles among current and future leaders on Capitol Hill.



Shealah Craighead Photography

Kevin J. “Seamus” Hasson, founder of the Becket Fund for Religious Liberty, received Heritage's Salvatori Prize for American Citizenship at the 35th annual Resource Bank meeting on April 26 in Colorado Springs. Opposite top: At Heritage's Conservative Members Retreat in Philadelphia, lawmakers gain some insight into the Founders' beliefs during a lecture at the Liberty Bell.

In January, more than 45 members of Congress attended our Conservative Members Retreat in Philadelphia. The two-day session focused on America's First Principles and how to preserve them.

We organized a Constitutional Training Retreat for Republican Study Committee (RSC) members. The retreat proved so successful, the RSC asked Spalding to lead a monthly seminar on First Principles for its entire staff.

And we continued to educate Hill staff on how founding principles relate to current policy debates through our Congressional Fellows and Madison Fellows programs—the former for junior staffers, the latter for senior-level staff. As one participant said of the Congressional Fellows program, “It connects us to the great traditions of the past and anchors us to



Shealah Craighead Photography

"The Madison Fellows program has been the perfect way for me to connect the principles of our Founding to the policies and ideas that conservatives are fighting for on Capitol Hill. It's for any staffer who wants to know not just the 'what' and 'how,' but the 'why' behind our work and how we should be serving in government."

—Wesley A. Goodman,
U.S. House Republican Study Committee

First Principles amid the dizzying partisan chaos and histrionics.” Attendance at the weekly seminars averaged more than 100. At year’s end, we graduated 61 Congressional Fellows—the largest class yet.

Fostering Understanding Throughout the Land

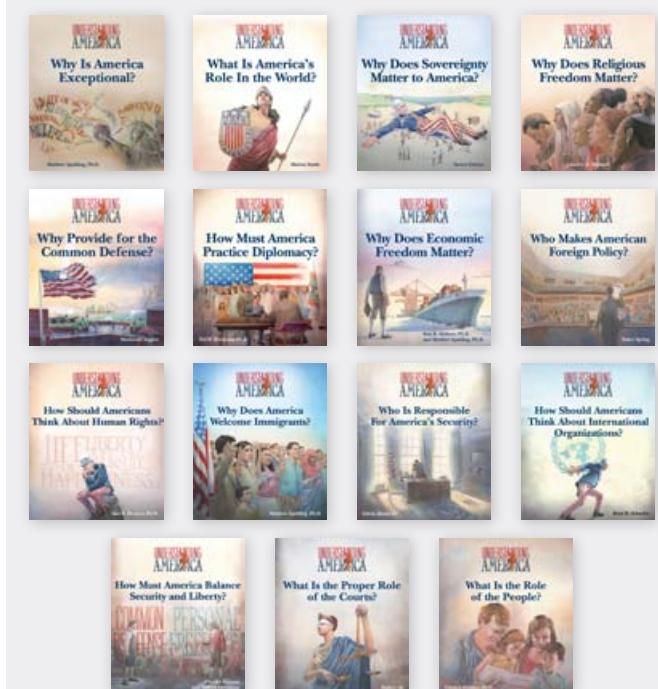
Heritage also strove to improve ordinary Americans’ understanding of our founding principles.

We completed our 15-essay series on *Understanding America* with the publication of Ed Feulner’s *What is the Role of the People?* More than 250,000 copies of the essays have been distributed thus far.

And we launched a new essay series: *The Makers of American Political Thought*. Each installment profiles a historical figure who significantly shaped our nation’s political thought ... for good or ill. The first three profiled were George Washington, Theodore Roosevelt and Woodrow Wilson.

We also launched a new website, ConstitutionOnline.com. This online version of the *Heritage Guide to*

Understanding America



Heritage completed its 15-essay series on *Understanding America*. More than a quarter-million copies of the essays have been distributed since the series launched in October 2010.

the Constitution is designed for everyone from Tea Party activists to law professors. Enthusiasts include Representative Darrell Issa (R-Calif.), who tweeted, “Finally, an ONLINE guide to the Constitution ... [a] handy and unique site.” In just five months, the site had drawn over 200,000 readers. ■



Face to Face Photography

Slowing the Advance of Obamacare

"If people let the government decide what foods they eat and what medicines they take, their bodies will soon be in as a sorry state as the souls who live under tyranny."

—THOMAS JEFFERSON

It was the Supreme Court story of the year: 26 states and the National Federation of Independent Business challenged the constitutionality of the Obamacare mandate to buy federally-approved health insurance. And Heritage was center stage.

And why not? As MSNBC and others noted, it was our December 2009 Legal Memorandum that first developed the legal argument being advanced by the plaintiffs.

Boasting both legal and health policy expertise, Heritage used the spotlight cast by the Supreme Court's hearings to explain anew how Obamacare would radically impair the quality of health care and alter the traditional role and power of the American state.

Although most observers felt that Heritage's constitutional arguments had carried the day in court, a bare majority of justices wound up ruling for the Administration—thanks to Chief Justice John Roberts' determination that the mandate isn't really a mandate, just a tax.

Heritage responded to the unfortunate ruling by continuing to make the case for outright repeal. In just the first four days following the Court's decision, Heritage experts participated in more than 70 major broadcast and print interviews. Their arguments struck a chord: Our Facebook "Repeal Obamacare" image received 14,000 "likes"—a Heritage record for Facebook interaction—and we gained thousands of new Twitter followers.



Face to Face Photography

Top: Senior Vice President David Addington invites a question for then-Sen. Jim DeMint, R-S.C., at "Now It's Up to Congress," a Heritage special event responding to that day's Supreme Court decision on Obamacare. Above: Lawyer Michael Rosman listens as Congressional Counsel Carrie Severino makes a point at our March 20 "Obamacare in Briefs" event.

We also continued educating the medical profession about how the law could disrupt their practices. Distinguished Fellow Stuart Butler, for example, writes for the official blog of the *Journal of the American Medical Association*. His day-after-the-election post perfectly encapsulated Heritage's pugnacious stance: "End of the Threat to Obamacare? Not at All."

Butler's work was noticed—and respected—by the Congressional Budget Office (CBO). The agency asked

him to serve on its health care advisory panel. From that perch he can weigh in on how the CBO should “score” various proposals to roll back the law.

Meanwhile, Heritage made the most of a little-noted silver lining in the Supreme Court’s ruling: a determination that the federal government could not coerce states to expand their Medicaid programs by threatening to withhold existing funding. Expanding Medicaid is a critical element of Obamacare. The Administration expects to cover roughly half of those now without insurance by moving them into this “Great Society” program.

To induce states to take on millions of new Medicaid patients, Obamacare offers a huge carrot—nearly \$1 trillion over a decade. It’s a tempting offer for cash-strapped states, but Heritage raised two key questions: Can a deficit-laden federal treasury actually honor that commitment? And what will states do once the money dries up?

Nina Owcharenko, Director of our Center for Health Policy Studies, sounded the alarm in a nationally syndicated column: “Expanding Medicaid Plans is Costly Mistake for States.” And Heritage’s Drew Gonshorowski and Edmund Haislmaier penned a definitive “State Lawmaker’s Guide to Evaluating Medicaid Expansion Projections.”

The message sunk in. By year’s end, eight governors had announced they did not support the expansion, and 27 were on the fence. As Dr. Bill Hazel, Virginia’s Health Secretary, told the Associated Press, “The state does not want to expand Medicaid and get stuck with the bill. Our legislators do not like to raise taxes to pay for a benefit someone else has promised.”

Heritage also warned states to think twice before agreeing to set up health insurance exchanges under the Obamacare framework of top-down regulation and restrictions.

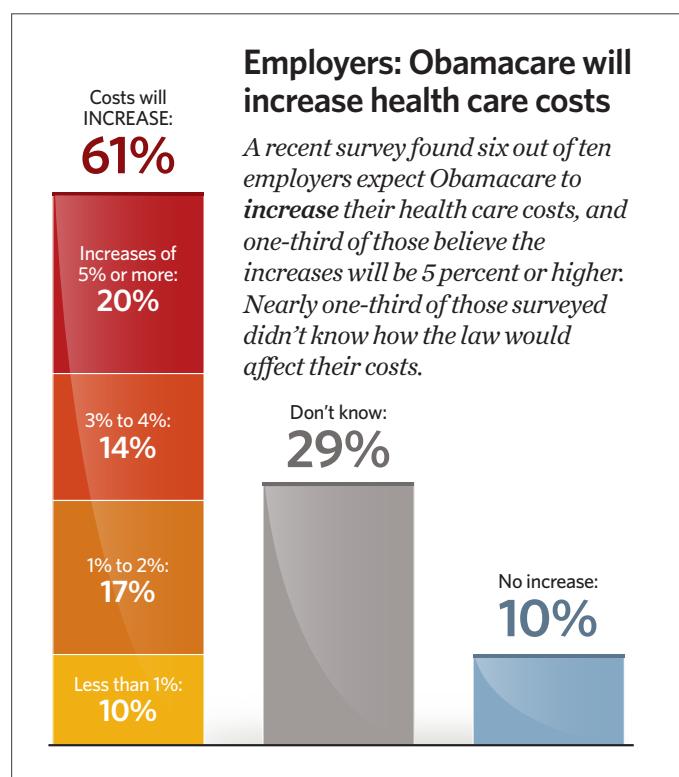
Most states heeded our advice, eschewing Obamacare exchanges despite the offer of heavy subsidies. As Pennsylvania Governor Tom Corbett explained: “[The promise of] state authority to run a health insurance exchange is illusory. In reality, Pennsylvania would end up shouldering all of the costs by 2015, but have no authority to govern the [federally-controlled] program.”

By year’s end, only 13 governors had committed to doing both the Medicaid expansion and state-based exchanges envisioned in Obamacare. And even liberal lawmakers were having second thoughts about the scheme’s tax burden. In December, 17 senators who had voted for the act petitioned Senate Majority Leader



Chas Gear

Sen. John Barrasso, R-Wyo., an orthopedic surgeon, describes how the new law threatens fundamental liberties during our March 22 “Obamacare on Trial” panel discussion.



Harry Reid to delay its “job-killing” (their words) tax on medical devices—slated to take effect Jan. 1, 2013.

Finally, a little-noted provision of the Fiscal Cliff deal repealed the CLASS Act—a financially untenable long-term care program created by Obamacare. Heritage’s Butler hailed the provision as “the permanent removal of a vital organ of Obamacare.”

As 2012 ended, Obamacare was still alive and kicking. But it remained deeply unpopular with the American people at large, its future as yet uncertain. ■



Face to Face Photography

Fighting to Keep America Strong

"To be prepared for war is one of the most effectual means of preserving peace."

— GEORGE WASHINGTON



Face to Face Photography

Top: In June 14 testimony before the Senate Committee on Foreign Relations Committee, Steven Groves, our Bernard and Barbara Lomas Senior Research Fellow, explains how the UN Law of the Sea Treaty threatens U.S. sovereignty posed. Former Defense Secretary Donald Rumsfeld (right) echoed Groves' concerns. **Above:** Sen. John Kyl, R-Ariz., makes the case for a strong national defense May 10 at Heritage's annual Jesse Helms Lecture.

Will America's big stick be whittled to a twig? President Obama's budget proposal for Fiscal Year 2013 would cut annual defense spending to \$544 billion—a drop of more than 22 percent since 2010. The Budget Control Act of 2011 calls for

another \$500 billion, across-the-board cut in defense to be phased in over a nine-year period, starting in 2013.

Even Defense Secretary Leon Panetta admitted that 75 percent of the cuts in the President's FY2013 proposal would damage our military capability. America would have fewer boots on the ground, ships at sea, and sorties in the sky.

Under the leadership of James Carafano, Heritage's Allison Center for Foreign Policy Studies quickly mobilized to staunch the budgetary bleeding and begin laying the groundwork to rebuild our aging and worn military.

Heritage joined forces with the American Enterprise Institute and the Foreign Policy Initiative to form the Defending Defense Coalition, dedicated to preserving a strong national defense. Experts from all three organizations jointly conducted dozens of briefings on the Hill, laying out America's critical defense needs and what it would cost to meet them.

Leaders listened. House Budget Committee Chairman Paul Ryan (R-Wis.) put together a responsible fiscal plan that made defense a priority and deferred sequestration.

Declaring May to be "Protect America Month," Heritage presented a series of lectures and panel events highlighting the need for Congress to provide funding adequate to meet its constitutional obligation to "provide for the Common Defense." To help spread the word online, we produced a three-part video series, "America at Risk," that outlined how the proposed cuts would undercut troop readiness, gut modernization programs needed to meet future threats and leave the defense industrial base in tatters. The series earned more than 100,000 views on YouTube.



Chas Ger

James Jay Carafano, Heritage Vice President for Defense and Foreign Policy, discusses how digital media such as Twitter are helping shape armed conflicts in the modern era. Joining him on the panel is Steve Ressler (right), founder of GovLoop, an online social network for government workers.

In the waning hours of 2012, Congress finally managed to pass a defense appropriations bill. It provided \$1.7 billion more than the President wanted and restricted the Pentagon's ability to "retire" key types of ships and aircraft. It also required the Missile Defense Agency to identify two East Coast locations best suited to protect the homeland from the growing ballistic missile threat.

Missile Defense: Now More than Ever

Baker Spring, Heritage's F.M. Kirby Research Fellow in National Security Policy, has long advocated an East Coast site to defend against the growing threat from Iran. But in 2012, the mild-mannered Spring became widely known as a passionate advocate of U.S.-Israeli cooperation in missile defense research. His analysis that the joint endeavor was making tremendous technological progress was proven true in November. That's when Hamas released a barrage of missiles at Tel Aviv.

Israel's "Iron Dome" system saved countless Israeli lives—and obviated the need for a full-scale military advance on Gaza. Both houses of Congress subsequently moved to boost funding for the U.S.-Israeli collaboration, with the House approving an additional \$900 million.

Getting Cyber-Security Right

Heritage remains a leading proponent of improving cyber-security in both public and private sectors. But we know a bad bill when we see one.

Heritage Visiting Fellow Paul Rosenzweig consequently went before the Senate Judiciary Committee to testify against Senate Majority Leader Harry Reid's misguided cyber-security bill. The proposal sought to

Advances in Homeland Security—2012

Washington embraced several commonsense reforms long advocated by Heritage:

The Department of Homeland Security acknowledged that the 2007 mandate to screen every cargo container entering a U.S. port is unworkable and unnecessary. A Customs and Border Protection official informed Congress it already screens all "high-risk" cargo and has never encountered terrorist weapons or explosives. Enough is enough!

DHS officials proposed changing the way it awards Homeland Security grants, switching from a "pork-barrel" model in which every congressional district got a piece of the pie to a targeted, risk-based, competitive grant process.

A report from the Defense Department's Office of the Inspector General included several Heritage recommendations regarding State Defense Forces—a low-cost, high-quality way to beef up capacity to respond to man-made or natural catastrophes striking the homeland.

The U.S. Visa Waiver Program admitted Taiwan. Heritage advocates expansion of the program, which strengthens ties with friendly nations while improving security screening.

The Senate passed a House-approved bill requiring that the Haqqani Network be designated a Foreign Terrorist Network—a move championed by Senior Research Fellow Lisa Curtis since September 2011.

address dynamic and evolving threats through a clunky regulatory approach. Rosenzweig's response: Better to wait, and get it right.

Heritage analyst David Inserra picked up that theme in his commentary "Cyber-Security Legislation Should Be Done Well or Not at All." Senator Kay Bailey Hutchison (R-Texas) read the entire piece aloud on the Senate floor. Reid's proposal failed in the Senate in August ... and again in November, when advocates mistakenly thought they had muted opposition to the measure.

Congress also voted to extend the Foreign Intelligence Surveillance Act for another five years. Heritage has been a strong supporter of the bill, which allows the government to monitor phone calls and emails of suspected overseas spies and terrorists without obtaining a warrant for each intercept. President Obama signed the bill on Dec. 31. ■



Face to Face Photography

Rule of Law—Linchpin of Freedom and Opportunity

“Without justice being freely, fully, and impartially administered, neither our persons, nor our rights, nor our property, can be protected.”

—JOSEPH STORY, *COMMENTARIES ON THE CONSTITUTION*, 1833

Heritage's Center for Legal and Judicial Studies remained in the vanguard of the movement to protect the fundamental freedoms and civil rights of all Americans.

It was a Heritage publication that first laid out the constitutional case against the individual mandate to buy health insurance in the Affordable Care Act. And though the Supreme Court ruling last June did not provide the knock-out blow we had anticipated, it did impose important limits on Congress's power to regulate under the Commerce Clause that will be useful in future cases. Moreover, it struck down the Obamacare provision that would have coerced the states to extend Medicaid coverage well beyond those living in poverty.

Fighting Overcriminalization

Our legal experts tackled other pressing issues, such as the growing problem of overcriminalization—where Congress creates (or allows federal regulators to create) criminal penalties for actions that should, at most, constitute civil infractions.

Senator Rand Paul (R-Ky.) declared himself a huge fan of *One Nation Under Arrest*, Heritage's seminal work on overcriminalization, and became an indefatigable champion of the cause.

After consulting Senior Legal Fellow Paul Larkin and other Heritage experts, Senator Paul introduced S. 3361, the Write the Laws Act. It would eliminate regulations carrying criminal penalties unless Congress re-passed

“One man, Hans von Spakovsky, a right-wing lawyer and legal fellow at the Heritage Foundation, found an attentive audience for ... his long-held conviction that voter fraud was rampant. ... The result has been a rash of new state laws—at least 25. ...”

Liberal Activist Nancy K. Kaufman,
The Huffington Post, Jan. 8, 2013

those regulations as statutes. The Senator also sponsored an amendment to the Food and Drug Administration Safety and Innovation Act that would require proof that a person had acted “knowingly and willfully” to establish a criminal violation of that law—a stance drawn directly from Heritage's *Without Intent* report.

Paul also introduced S. 2062, the Freedom from Overcriminalization and Unjust Seizure Act. Like its House companion, introduced by Representative Paul C. Broun (R-Ga.), it aims to defang the Lacey Act—a law that makes it a crime for Americans to violate foreign laws, whether they could reasonably be expected to know those laws or not.

Keeping Elections Free and Fair

Heritage firmly believes that Congress and the states must guarantee that every eligible individual is able to vote, and that his or her vote will not be stolen by fraud. And 2012 was the busiest year yet for our Voter Integrity

Left: Former Rep. Artur Davis, D-Ala., (right) talks about ensuring the integrity of elections during a July 26 all-star panel discussion led by Todd Gaziano (left), Director of our Meese Center for Legal and Judicial Studies.

Project, led by Senior Legal Fellow Hans von Spakovsky, a former official in the Justice Department's Civil Rights Division and Federal Election Commissioner.

Von Spakovsky rebutted liberals who insist voter fraud doesn't exist, debunked pseudo-academic studies purporting to show that voter ID laws would "repress" the vote, and countered Department of Justice (DOJ) attempts to block state reforms from taking effect. He spoke frequently on the topic and, with journalist John Fund, co-authored the best-selling *Who's Counting? How Fraudsters and Bureaucrats Put Your Vote at Risk*.

Von Spakovsky made a difference. Florida used his arguments to parry DOJ objections to its attempt to purge noncitizens from the state's voter rolls. The Mississippi Secretary of State cited von Spakovsky's research to rebut DOJ objections to that state's new voter ID law. The court ruling that upheld Pennsylvania's voter ID law relied on his work as well.

Immigration, Criminal Sentencing, and More

Our Legal Center's influence didn't end there. Twice within a two-week period, its work was cited in Supreme Court briefs. A Feb. 8 amicus brief by the Landmark Legal Foundation cited a Heritage Legal Memorandum by von Spakovsky and Senior Legal Fellow Charles Stimson on the Arizona immigration law. The scholars argued that providing in-state tuition to illegal aliens violated federal law.

The previous week, the State of Alabama's brief in *Miller v. Alabama* cited *Adult Times for Adult Crimes: Life without Parole for Juvenile Killers and Violent Teens*—a report by Stimson and Heritage Visiting Fellow Andrew Grossman.

Perhaps the most moving moment of the year came with a name change. In October the center was officially named the Edwin Meese III Center for Legal and Judicial Studies, in honor of its long-time chairman. While Meese announced his "semi-retirement" from Heritage, the former Attorney General remains as our Ronald Reagan Distinguished Fellow Emeritus. The Center's reins now rest in the hands of David Addington, Senior Vice President for Legal and Judicial Policy. ■



Edwin Meese III (left) receives Bradley Prize from Michael W. Grebe, President and CEO of The Lynde and Harry Bradley Foundation. Grebe called Meese "an invaluable public servant" wholly dedicated to "upholding the rule of law and making the nation more secure."

Honoring Ed Meese

The Heritage Foundation thanks the following members for their generosity in support of the Edwin Meese III Center for Legal and Judicial Studies:

- Mr. David S. Addington
- Mr. and Mrs. William L. Amos, Jr.
- Mrs. Billie I. Bowles
- Mrs. Anne Coors
- Mr. and Mrs. Gene J. D'Agostino
- Mrs. Renell Dubay
- Mr. and Mrs. John H. Flemer
- Mr. and Mrs. Ed W. Gilbertson
- Mr. and Mrs. William Grewcock
- Mr. and Mrs. Jerry Grossman
- Mr. and Mrs. Kevin S. Kookogey
- Mr. and Mrs. Robert W. Mair
- Mr. and Mrs. William Middlemas
- Mr. and Mrs. Herman J. Obermayer
- Mr. and Mrs. Dick J. Randall
- Mr. and Mrs. John H. Rumpel
- Mr. and Mrs. Howard Schultz
- Mr. Greg Sheehan
- The Estate of S. Harrow Smith
- Dr. and Mrs. Leo G. Watson
- Mr. William M. Young, Jr.
- The Robert and Audrey Zinser Charitable Foundation

Exposing Excessive Regulation and Taxation

“[W]e still find the greedy hand of government thrusting itself into every corner and crevice of industry, and grasping the spoil of the multitude.”

—THOMAS PAINE, *RIGHTS OF MAN*, 1791

Odd but true: The Agriculture Department wants poultry farmers to give every chicken in America an individual ID. That “fowl” idea was just one example of regulatory excess featured in “Tales of the Red Tape,” an eye-opening series of online reports by Heritage Research Fellow Diane Katz.

In March, Katz teamed with Senior Research Fellow James Gattuso to produce “Red Tape Rising: Obama-Era Regulation at the Three-Year Mark.” The report documented the addition of \$46 billion in annual regulatory costs since President Obama took office. A *Drudge Report* link to the study drove heritage.org traffic to an all-time high.

The duo scored another big media hit at year’s end. Their column on “The 10 Worst Regulations of 2012” appeared in more than 30 newspapers. It sparked howls of outrage over bureaucracy run amok and letters to editors coast-to-coast.

Fending off Taxmageddon

Throughout the year, the specter of an automatic, \$494 billion tax hike loomed. Heading off “Taxmageddon”—a key component of the Fiscal Cliff—became a top Heritage goal.

Senior Policy Analyst Curtis Dubay documented how the tax hikes—slated to start Jan. 1, 2013—would damage American wallets, wages, job creation, investment and economic growth. His research grabbed attention. Sean Hannity read from it on air. *The Wall Street Journal*, *Los Angeles Times*, *Politico*, NPR and others cited it as well.



Above: Heritage Senior Policy Analyst James Sherk explains how labor unions inflate costs and infringe on employee rights, as part of a March 20 panel featuring former National Labor Relations Board member John Raudabaugh (center) and former union organizing chief Rian Wathen. Top opposite: Rep. (now Senator) Tim Scott, R-S.C., makes the case for the proposed Employee Rights Act earlier at the same event.

As Heritage researchers continued to demonstrate how much was at stake, their work became the talk of Washington, too. Again and again, Heritage research cropped up in congressional websites, speeches, columns and TV interviews.

Our findings drove home a fundamental truth: America’s deteriorating fiscal condition arises from excessive spending, not insufficient taxation. Unfortunately, Congress could not muster the will to act boldly. Instead, lawmakers dodged the Fiscal Cliff by letting income taxes rise on those earning more



Chas Geer

than \$450,000 (\$400,000 for single filers) and saddling all American workers with higher payroll taxes. More Obamacare taxes also came online, including a first-time-ever payroll tax on investment income.

There was, however, one silver lining to this largely bad deal: The Bush tax cuts were made permanent for most Americans. Taxpayers could also take comfort that one of Obamacare's worst provisions, the Community Living Assistance Services and Supports Act—adamantly opposed by Heritage—was finally put to death.

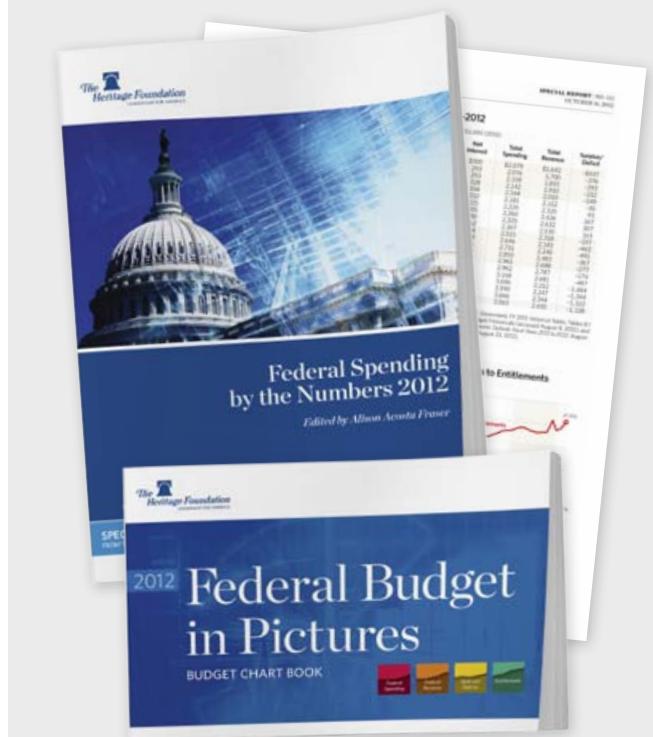
Federal Pay, Fannie Mae, and More

It's hard for free enterprise to flourish when government pays itself better than those who pay the taxes. Heritage analysts James Sherk and Jason Richwine documented the income inequality between federal workers and their private-sector counterparts.

Their findings were featured in a CBO report that was a major factor in the February vote by the House to extend a temporary pay freeze for members of Congress and civilian federal workers through 2013. In June, a Government Accountability Office report on federal pay prominently featured their work as well.

In the final quarter of 2012, Heritage released four special reports exploring how elimination of mortgage giants Fannie Mae and Freddie Mac would affect the housing market. The conclusion: Not much at all. Senior Research Fellow David John began briefing Hill staff interested in pulling the plug on Fannie and Freddie and restoring free-market principles to the U.S. housing market. The issue should ripen in 2013. ■

The Problem is *Spending!*



With charts and statistics, Heritage revealed the sorry state of our nation's finances. Our 2012 *Federal Budget in Pictures* attracted nearly a million page views online. "Federal Spending by the Numbers" has been our most popular research publication since its release in October.



Face to face Photography

Promoting Opportunity over Dependency

[O]nce someone loses the habit of offending for himself, it becomes difficult for him to reacquire it, and he becomes dependent on the state for the rest of his life.

—EDWIN J. FEULNER AND BRIAN TRACY,
THE AMERICAN SPIRIT, 2012



Top: At a May 22 lecture hosted by Heritage Vice President Michael Franc (left), Sen. Tom Coburn, R-Okl., says the nation's debt woes result from shortsighted decision-making by both political parties.
Above: Senior Vice President David Addington listens March 22 as House Budget Committee Chairman Paul Ryan, R-Wis., walks through critical aspects of the 2013 spending plan.

In fiscal year 2011, one in four American children was on food stamps. That news stunned many, but it came as no surprise to Heritage, where we have tracked the rising tide of dependence for years.

In February, our *2012 Index of Dependence on Government* revealed that more than 67 million Americans depend on federal assistance for everything from food, shelter and clothing to college tuition and health care. Moreover, they received benefits worth, on average, \$32,748—more than the average American's disposable personal income of \$32,446.

While the number of Americans receiving federal aid rises, the number of federal taxpayers continues to drop. William Beach, Director of our Center for Data Analysis and *Index* co-author, noted: "At some point, this unsustainable fiscal model will collapse."

Building Support for Right-Sizing Government

Of course, Heritage has already developed a plan to turn back the tide of dependency, balance the budget and right-size government. Entitled *Saving the American Dream*, it reached a major milestone in 2012.

On May 8, Senator Mike Lee (R-Utah) introduced S. Con. Res 44, a budget resolution modeled entirely on the policies and reforms contained in *Saving the American Dream*. Lee's proposal stood in direct competition with both the President's budget and the budget advanced by the House Republican leadership.

Discretionary Spending Cuts Alone Will Not Balance the Budget

Annual spending on entitlement programs is massive compared to other federal spending priorities. Cutting discretionary spending is necessary, but cuts to foreign aid alone or pulling out of Afghanistan will not close the deficit. Entitlement programs must be reformed.

Entitlements

(Medicare, Medicaid, Social Security, and other mandatory programs, plus their net interest)

\$2.48 TRILLION

Annual Spending (2012)

Global War on Terrorism \$115.1 billion

Corporation for Public Broadcasting \$445 million

Foreign Aid \$24.2 billion

NASA \$17.6 billion

"Your informative analysis sharpened our ideas and helped make the plan stronger and even better for future Medicare beneficiaries."

—Representative Wally Herger, in a letter to Heritage's Center for Data Analysis

In the end, the Senate passed no budget at all. But S. Con. Res 44 did attract 17 votes—17 more than the President's budget!. That gives us a cadre of senators committed to supporting our plan. And upon that, we will build.

While establishing a congressional beachhead from which we can advance *Saving the American Dream*, we also cultivated support elsewhere. Heritage experts briefed dozens of state-based and national think tanks, as well as grassroots activist groups such as Americans for Prosperity and the National Taxpayers Union.

Distinguished Fellow Stuart Butler, Director of our Center for Policy Innovation (CPI) and a key architect of the plan, hit the road to explain to senior citizens how we would recast—and thereby save—Medicare and Social Security. By video conference, he spoke to more than 450 local leaders in 27 states, advocating reform as a member of AARP's Town Hall Education Campaign. He also spelled out our proposed reforms in *The AARP Bulletin*, the largest-circulation magazine in America. Our work was discussed at events all over the country, involving almost 4 million Americans.

"Unthinkable" Reforms Now Thinkable

Headway for Heritage's entitlement reforms was evident even in the presidential election. Representative



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Marketing Associate Joshua Shepherd answers questions about Heritage's Saving the American Dream plan in Tampa, Fla., one of scores of stops made across the country during a 10-month national bus tour promoting the plan.

Paul Ryan's Medicare reform proposals track closely with those in *Saving the American Dream*. Upon his selection as the Republican Vice Presidential candidate, President Obama's campaign relentlessly attacked his ideas. However, as *Investor's Business Daily* noted, "this presidential race may go down as a major turning point in American politics: when the third rails of Medicare and Social Security lost their shock value."

NBC pollster Peter Hart called Medicare "the dog that didn't bark" in this election. In the end, seniors supported Romney over Obama 54 percent to 46 percent. The public's increasingly evident willingness to entertain bold changes to entitlement programs bodes well for *Saving the American Dream*.

Valuing the Dignity of Work, the Rights of the Religious

“The importance of piety and religion; of industry and frugality; of prudence, economy, regularity and an even government ... all are essential to the well-being of a family.”

—SAMUEL ADAMS, LETTER TO THOMAS WELLS, NOVEMBER 22, 1780

Government has spent \$20 trillion in its war on poverty ... and the poverty rate remains stubbornly high. Conservatives deplore the growth of the welfare state—not just because it's so expensive, but because it erodes institutions of civil society that address social ills far more effectively.

Liberals, however, have great faith in the benevolence and efficacy of government. To them, welfare spending signifies compassion, and provisions that encourage welfare recipients to find work are stone-hearted.

And so it was that, on July 12, the Department of Health and Human Services (HHS) released a policy directive that essentially undid the work requirement at the heart of the Welfare Reform Act of 1996. Heritage immediately swung into action.

“As soon as the HHS memo was issued, [Heritage analyst Robert] Rector raised the clarion call that Obama, through stealth, was gutting the law ...,” reported Glenn Kessler of *The Washington Post*.

Rector and his colleague, Katherine Bradley, explained how the directive’s waiver of work requirements would reverse the gains made by the ’96 reforms. Their warnings were carried by *The New York Times*, *The Wall Street Journal*, Associated Press, PBS NewsHour, C-SPAN, NPR and numerous other media outlets.

Fighting to Preserve Religious Freedom

In 1974 Gerald R. Ford warned, “A government big enough to give you everything you want is a government big enough to take from you everything you have.” In 2012, the Administration that was big enough to give us



Chas Gerer

Above: Sen. Roy Blunt, R-Mo., a leader in the fight against Obamacare’s intrusion on conscience and religious liberty, addresses the issue in a Feb. 13 lecture. Top opposite: DeVos Center Research Fellow Dominique Ludvigson (left) hosts a lively July 31 panel analyzing recent efforts to redefine marriage. Joining the discussion were National Organization of Marriage President Brian Brown, Bishop Harry Jackson, Jr. and law professor Teresa Collett.

Obamacare tried to force employers to provide certain preventive health coverages, even if it would betray their religious beliefs.

In January, HHS announced it would finalize a regulation requiring all health plans to cover abortion-inducing drugs, sterilization procedures and contraceptives. The mandate’s narrow exemption applied only to formal houses of worship. It offered no relief for individuals or other religious employers—not even religious schools, hospitals and charities.

Public outcry ensued. On Feb. 10 a flustered President Obama and HHS Secretary Kathleen Sebelius



Face to Face Photography

promised they would find a way to “accommodate” deeply held beliefs of religious employers. Secretary Sebelius also promised a “temporary safe harbor” to religious nonprofits that would supposedly delay enforcement of the mandate until August 2013.

Jennifer Marshall, Director of our DeVos Center for Religion and Civil Society, and Edmund Haislmaier, Senior Research Fellow in Health Policy, promptly labeled those promises “squid ink.” They were right. Just five days after promising “accommodation,” the Administration finalized its offensive rule without any change whatsoever.

Throughout 2012, Heritage rallied opposition to the mandate, through regular meetings of our Religious Liberty Forum and *ad hoc* collaborations with allies such as the Alliance Defending Freedom and the Becket Fund for Religious Liberty. To alert the public, our analysts penned dozens of columns and did scores of radio and TV interviews.

Other objectors—secular as well as religious—took legal action.

To date, 43 lawsuits representing more than 110 plaintiffs have been filed challenging this egregious assault on religious liberty. In December, Federal District Court Judge Brian Cogan ruled that the suit by the Archdiocese of New York could move forward, notwithstanding Sebelius’ promise of “temporary safe harbor” for certain nonprofit religious employers.

“The First Amendment does not require citizens to accept assurances from the government that ... it will take ameliorative action,” Judge Cogan wrote. “There is no, ‘Trust us, changes are coming’ clause in the Constitution.” ■



Sen. Orrin Hatch, R-Utah, lambasts President Obama’s unilateral welfare “reform” action in Sept. 19 remarks at Lehrman Auditorium. “Gutting welfare work requirements ... without congressional input is simply unacceptable and cannot be allowed to stand,” Hatch said.

Face to Face Photography



Chas Gerer

Before taking the stage for a Feb. 27 panel discussion on why more women see Obamacare as a threat to religious liberty, DeVos Center Director Jennifer Marshall (left) welcomes business consultant Pia de Solenni, writer-commentator Kate O’Beirne, and policy analyst Hadley Heath.



Chas Gear

Producing Energy, Protecting the Environment—The Right Way

“History has shown that command-and-control policies are inherently inefficient and often counterproductive. ... a sustainable and productive system of environmental stewardship depends on a free people.”

—ENVIRONMENTAL CONSERVATION: EIGHT PRINCIPLES OF THE AMERICAN CONSERVATION ETHIC, 2012

Just before Christmas, American Electric Power announced it would shut Big Sandy. The EPA Grinch had struck again.

The coal-fired plant in Eastern Kentucky was the latest casualty of environmental regulations that give utilities a cruel choice: Spend billions to retrofit coal-burning plants or close them.

Big Sandy’s shutdown will cost jobs at the plant and in local mines—and raise area electricity rates 8 percent. “The impact on the economy here is just going to be devastating,” said Kentucky House Majority Leader Rocky Adkins, D-Sandy Hook.

Getting Environmentalism Right

The Left has “owned” the environmental movement for decades. Whatever ails the environment, their solution is always the same: more regulation and higher consumer costs. In 2012, Heritage set out to change that.

In June, we published *Environmental Conservation: Eight Principles of the American Conservation Education*. World magazine hailed it as “a publication that has the potential to change the conversation about environmentalism in America.”



Top: Senior Research Fellow Jack Spencer appreciates a point made by Sen. Lamar Alexander, R-Tenn., in his March 7 argument against taxpayer subsidies for “Big Wind” producers. **Above:** Our *Environmental Conservation* report, regarded by some as a debate “game-changer.”

A basic tenet of *Environmental Conservation*: The people—and the economy—are best served when energy and environmental policy is directed by free markets,

not governments. Governments use subsidies and regulations to reward their supporters and punish their opponents. Free markets will produce the most energy at the cheapest cost.

Debunking Anti-Nuclear Myths

Those points were raised in *Powering America*, Heritage's new documentary on nuclear energy. Released in March, the film debunks anti-nuclear myths and gives viewers a behind-the-scenes look at how nuclear energy really works.

The film aired repeatedly on The Documentary Channel and prompted numerous speaking engagements for Jack Spencer, Heritage's top nuclear energy analyst. We also took *Powering America* on the road for screenings before academic, industry, technical and community organizations across the country. The March premiere in Washington attracted high-level officials from government and industry. The "road tour" ended in San Diego with a November airing at the nation's premier conference on nuclear issues: the annual meeting of the American Nuclear Society.

Energy Policy that Makes Sense, not Subsidies

The tide began to turn against subsidy-happy energy policy in 2012. Not only were no new energy subsidies established during the year, but progress was made on rolling back existing ones. Several bills to end special tax treatment for specific energy sources were introduced, and the House passed a bill to prevent future Solyndras.

Heritage's message regarding the evils of energy subsidies really took hold when Congress took up the NAT GAS Act. An only-in-Washington type of bill, it called for subsidizing the natural gas industry—while also levying a new tax on natural gas.

When originally introduced in 2011, passage was considered inevitable. But Heritage released a stream of research papers—backed up with congressional staff briefings—that demonstrated why the market-meddling measure was wholly unnecessary. For one thing, private industry was already expanding natural gas production and use without government handouts.

Ultimately, 20 Congressmen "saw the light" and withdrew sponsorship of the bill—an unprecedented about-face. And, as the time approached for the Senate to vote on the bill, Heritage Action made sure lawmakers got the message directly. In just two days, their



Chas Geer

Sen. James Inhofe, R-Okla., displays a picture of his 20 children and grandchildren during his March 14 lecture explaining his opposition to those who see "climate change" as an excuse to increase government regulation of Americans' daily lives.



Powering America, Heritage's latest documentary, explodes the myths promulgated by both anti-nuclear power activists and the nuclear industry itself.

grassroots information campaign generated more than 4,500 phone calls to Senate offices. The bill went down to defeat.

A few months later, so did some ill-considered amendments to a transportation bill. The so-called Stabenow Amendments (named for Senator Debbie Stabenow, D-Mich.) would have sweetened existing energy subsidies, further distorting the market and tightening Washington's suffocating grip on the energy sector. ■



Face to Face Photography

Expanding Opportunity for All Peoples

"To attain freedom is mankind's highest aspiration. To use freedom wisely is mankind's urgent responsibility. To preserve freedom is mankind's continuing challenge."

—EDWIN MEESE III, *FREEDOM*, 2009.



Above: Sen. Marco Rubio, R-Fla., addresses Cuba's need for a "technological revolution" at a March 21 event co-sponsored by Google. Top: Morgan Lorraine Roach, Heritage Research Associate, puts a question on repercussions of the Arab Spring to a May 9 panel featuring Senior Research Fellow James Phillips and Africa experts J. Peter Pham, Alexis Arieff and Manoela Borges.

For generations, America advanced freedom throughout the world. But America's international profile has shrunk under the Obama Doctrine. America now "engages" rather than confronts tyrants. We prefer to "outsource" policy decisions to international bodies. And when we do decide to lead, we do it "from behind."

Predictably, our competitors see U.S. reluctance to lead as an opportunity—a chance to fill a vacuum and advance their interests at our expense. And, so, 2012 became a time of testing on the international stage. Arab Spring turned to Arab Winter as Islamists won out over democratic voices in Egypt and elsewhere—an outcome predicted months earlier by Heritage's James Phillips when it became clear the Administration was content with essentially a "hands-off" approach.

With the Middle East's increasing volatility, Heritage analysts questioned both the wisdom—and the substance—of the Administration's "Asia Pivot." The Chinese concluded the "pivot" rhetoric was empty. Increasingly belligerent, they pressed dubious territorial claims against Japan, the Philippines, and others—and deployed naval forces to underscore their seriousness. And North Korea defiantly launched a newly sophisticated missile—U.N. resolutions and the "pivot" notwithstanding.

Making a Difference, Worldwide

Despite this discouraging climate, Heritage scored some meaningful successes.

Reversing long-standing policy, the U.S. adopted Senior Research Fellow Bruce Klingner's recommendation to let South Korea build mid-range ballistic missiles. (Seoul had been restricted to rockets that could fly no more than 300 kilometers.)

Recognizing that America is losing ground in the public diplomacy wars, the Office of Management and Budget asked Senior Fellow Helle Dale for written recommendations on how to improve the effectiveness of U.S. international broadcasting.

The U.S. established Permanent Normal Trade Relations with Russia. The bill included Heritage-recommended provisions allowing the U.S. to impose sanctions on individual Russian officials who abuse human rights. Thus, it simultaneously advances U.S. economic interests and affirms our commitment to human rights everywhere.

Protecting American Sovereignty

When it comes to the Law of the Sea Treaty (LOST), liberals never say "die." The Reagan-era pact arose again in 2012. And, again, Bernard and Barbara Lomas Senior Research Fellow Steven Groves provided the intellectual ammo needed to convince senators that the U.S. would gain nothing from it.

The pact would place the U.S. under jurisdiction of the International Tribunal on the Law of the Sea. Environmental lawyers have threatened to use LOST to sue the U.S. in the Hamburg-based court for "climate change damages."

LOST also would divert billions in U.S. royalties to the International Seabed Authority in Kingston, Jamaica, and give that body complete control of deep-seabed mining.

In July, 35 senators announced they would *not* consider LOST until at least 2013—killing the pact for the remainder of the year. That same month, a Heritage-inspired "Dear Colleague" letter opposing the UN Arms Trade Treaty collected 51 Senate signatures, killing that pact, too.

Undeterred, Senator John Kerry (D-Mass.) called for a quick vote on the UN Convention on Persons with Disabilities during the lame-duck session. Fortunately, testimony by Groves had convinced many senators that the pact offered disabled Americans no new protections, but threatened to put future decisions about these policies in the hands of an international committee of "disability experts" in Geneva. The pact was defeated Dec. 4. No more treaties were brought up. ■

Tracking the Rise and Fall of Economic Freedom



Heritage unveiled its *2012 Index of Economic Freedom* at a packed Hong Kong Press conference. The annual report documenting advances and retreats in economic freedom across the globe garnered worldwide media coverage. The online version of the *Index* received more than 1.6 million page views in the first quarter ... and never looked back. By year's end, page views totaled more than 4.5 million—up more than 40 percent over the previous, record-setting year.

Unfortunately, the news for the U.S. was not good. Economic freedom declined for the fifth consecutive year, hitting its lowest mark in a decade. The biggest factor: the continuing explosion in government spending and regulation.

Though Washington liberals seemed indifferent to the warnings implicit in the *Index*, world leaders elsewhere were inspired to do better for their people. In the Philippines, Presidential Spokesman Edwin Lacierda announced the government would work for "continuous improvement" in the ratings. Citing her nation's low score in the *Index*'s Rule of Law category, President Aquino appointed Chief Justice Maria Lourdes Sereno "to implement the much-needed reforms in the judiciary."



Face to Face Photography

Unlocking Opportunity Through Education

"If Virtue & Knowledge are diffused among the People, they will never be enslav'd. This will be their great Security."

—SAMUEL ADAMS, LETTER TO JAMES WARREN,
FEBRUARY 12, 1779

“**I**t’s a trap!” That was the gist of Heritage’s message to state education officials regarding the Administration’s push to have them embrace the “Common Core” national standards for grades K-12.

Despite our warnings, 46 states and the District of Columbia took the bait. They pocketed federal “Race to the Top” grants in exchange for adopting the “Common Core” standards. By year’s end, some were experiencing buyer’s remorse.

English teachers were aghast at the requirement that, by 2014, “non-fiction texts” make up 50 percent of all assigned reading in elementary schools ... and 70 percent of all 12th grade reading. Their concern: that they would have to jettison literary masterpieces to make room for government-approved texts such as “Health Care Costs in McAllen, Texas” and “Executive Order 13423: Strengthening Federal Environmental, Energy and Transportation Management.”

In a hugely popular FOX News commentary, Will Skillman Fellow Lindsey Burke noted there’s absolutely no evidence supporting the notion that forcing students to wade through Executive Orders will

Above: Heritage interns ponder the case for school choice made by Lindsey Burke, our Will Skillman Fellow in Education Policy.

somehow improve their critical thinking skills or otherwise better prepare them for citizenship in our self-governing society.

By year’s end, parents and teachers joined common cause. “They hate the Common Core,” *The Washington Post* reported in December. A grassroots revolt had begun, and Burke was advising states on ways to extricate themselves from this bad educational bargain.

Expanding School Choice

Earlier in the year, Burke and Research Associate Rachel Sheffield traveled to Louisiana to help kick off National School Choice Week. Back in D.C., Heritage co-hosted a lecture by then-Senator Jim DeMint (R-S.C.) on the importance of school choice.

Two months later, Heritage returned to Louisiana to co-host a panel discussion about a school-choice proposal working its way through the state legislature. More than 25 legislators attended. They left impressed. In April, Louisiana passed the student voucher bill, allowing students in low-performing public schools to put their share of state education dollars toward private-school tuition.

In September, nearly 5,000 students availed themselves of this opportunity. It was one of the largest single-year enrollment increases in the history of voucher programs nationwide. ■



Benjamin Meyers Photography

Heritage Action in Action

“**A** lobbying firm for freedom.” That’s how *The Washington Examiner* described Heritage Action for America, Heritage’s independent sister organization. Combining a professional government relations team and dedicated grassroots activists, Heritage Action has begun to reverse Washington’s perverse incentive structure that encourages politicians to embrace shortsighted political gimmicks instead of substantive policy reforms.

Washington is flooded with special-interest lobbyists and rent-seeking associations, but Heritage Action’s 20-person team has proved a counterforce to be reckoned with. After conservatives delivered a decisive blow to the United Nations Law of the Sea Treaty, the Associated Press concluded Heritage Action’s “opposition was too formidable.” *Roll Call* declared the special interests lost “yet another policy battle to conservative activists.”

Heritage Action is recruiting and training a grassroots army that will make its voice heard outside our nation’s capital. Many of our legislative successes have hinged on influential activists asking tough questions at town hall meetings, writing well-timed letters to the editor, and using social media to apply pressure to their members of Congress.

In 2012, we built a field program that established a heavy presence in 72 strategic congressional districts across the country. In each of those districts, Heritage Action regional coordinators identified, trained and deployed conservative activists. We call these activists “Sentinels” because they stand guard “in-district,” holding their elected officials accountable for what they do in Washington.

Above: Senate staffers are briefed by Heritage Action team members (left to right) Tripp Baird, Erin Kanoy Siefring, Josh Robbins, and Andrew White.

Heritage Action’s inside-outside approach to Capitol Hill yielded major victories in the areas of defense, labor, regulation, energy and housing.

A telling display of grassroots power came as Congress advanced a big-spending transportation bill. Looking to secure “goodies” for supporters back home, some lawmakers began calling for a return to earmarks. Alerted by Heritage Action, our activists picked up their phones and pens and let their Representatives know, in no uncertain terms, that it was *not* a good idea. One after another, our Sentinels received commitments that their Members would hold firm. In less than a week, the movement to restore earmarks was quashed.

Throughout the year, Heritage Action’s government relations team worked with lawmakers to introduce and support Heritage-inspired legislation. Senator Mike Lee (R-Utah), for example, introduced a budget mirroring Heritage’s *Saving the American Dream* plan and won significant support. And Representative Wally Herger (R-Calif.) introduced the Save and Strengthen Medicare Act, the most complete and detailed major Medicare reform proposal in a decade. Going forward, these plans will be at the core of a conservative governing platform.

Heritage Action was created in 2010 to pair political brawn with Heritage’s policy brain. And after two years, it is wearing down the Left. As one liberal Salon columnist regretfully observed, “Whether we like it or not, Heritage Action is going to get what it wants.”



Jim Oesch

Preparing the Next Generation of Conservative Leaders

“When we are planning for posterity, we ought to remember that virtue is not hereditary.”

—THOMAS PAINE, *COMMON SENSE*, 1776

Our vision is to build an America where freedom, opportunity, prosperity, and civil society flourish. At Heritage, we take our vision statement seriously.

We also know the America we envision won't be “built in a day.” That's why we've always invested heavily in the future—shaping and sharpening the young conservatives of today so they can help move America closer to that vision for generations to come.

It's why we run the largest intern program of any think tank in America. Last year we selected 191 college students to work shoulder-to-shoulder with our researchers, legal scholars and communications and marketing professionals. In addition to gaining hands-on experience developing and promoting conservative policy solutions, these young people benefited from more than a dozen lectures, seminars and formal training sessions featuring noted figures such as Paul Ryan, Mark Levin and John Stossel.

It's why our Young Leaders Program (YLP) briefed visiting youth from more than 100 universities in 2012 alone. Each of those briefings concentrated on explaining the principles of our nation's founding.

And it's why our YLP goes beyond bringing young people to Washington, by reaching out to them on their

Above: Heritage President Ed Feulner in his element: surrounded by our fall class of hard-charging interns in the Allison Foyer.

own turf. Led by Director Heather Pfitzenmaier, the YLP team visited more than 58 college campuses in 23 states. They talked with students and faculty about the most pressing issues before Congress and what's at stake for the rising generation.

They also hosted events in Chicago, Columbus and Denver to talk about the debt, health care and first principles. These gatherings drew young professionals concerned about our nation's fiscal future and theirs. The discussions energized hundreds of young professionals to get behind the ambitious yet commonsense reforms outlined in Heritage's *Saving the American Dream* plan.

The breadth, depth and effectiveness of our Young Leaders Program did not go unnoticed. In November, the Young Conservatives Coalition presented Pfitzenmaier with its Buckley Award. It recognizes “individuals between the ages of 21–40 who've made a significant contribution to the conservative movement at large.” The following month, *Forbes* magazine named her one of “30 Under 30” young Americans having the greatest impact on U.S. law and policy. ■



Heritage interns and their mentors reminisce at the intern graduation “after party” in the Allison foyer.



Photos: Benjamin Meyers Photography

Vice President for American Studies Matthew Spalding (at table) fields questions in his office from interns curious about founding principles.

2012 NAMED INTERNS

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 Anna Jones, *Clemson University*
 Bryan McVae, *St. Mary’s College of Maryland*
 Ella Peterson, *University of Denver*

Mary H. Campbell Foundation Intern

Joseph “Wade” Miller, *University of Texas at Dallas*

Richard Earl Carter Intern in the Meese Center

Chelsea DeMark, *American University*

Gene D’Agostino Intern in the Meese Center

Ian Smith, *University of British Columbia*

David A. King Intern

Alex Entz, *Northwestern University*

Kevin Kline Intern

Ashley Shelton, *Harding University*

Robert Mair Interns in the Meese Center

Katie Beck, *University of Arkansas, Fayetteville*
 Jonathan Levy, *Northwestern University*

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Peyton Miller, *Harvard University*
 Alex Van Buskirk, *Azusa Pacific University*

Nicholson Family Interns

Danielle Hanson, *Benedictine College*
 Emily Reagan, *Hillsdale College*

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Aurelian Braun, *Hollins University*

Pilgrim Family Foundation Interns

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 Kyle Niewohner, *Patrick Henry College*

Doris and Richard Pistole Intern

Dylan DelliSanti, *Hampden-Sydney College*

Ray Foundation Interns

Tyler Viale, *University of Central Florida*
 Daniel Roberts, *American University*
 Katelyn Carafano, *Florida State University*

Hamilton Roddis Foundation Interns

Yonathan Amselem, *Florida International University*
 Maura Cremin, *University of Oklahoma*
 Bryan DeWinter, *Missouri State University*
 Noelle Doundoulakis, *St. Mary’s College*
 Suzanne El Sanadi, *Grove City College*

Jordan Saunders Intern

Mary Clare Reim, *College of the Holy Cross*

Greg Sheehan Intern

David Jackman, *Gilford College*

Col. Charles B. and Sally G. Stevenson Intern

George Cokeley, *The Citadel*

Tom Tracy Intern

Jonathan Finer, *Colorado Christian University*

Pedro and Ann Wasmer Intern

Samuel Dulik, *Georgetown University*

Samuel L. Westerman Foundation Interns

Stephanie Jaczkowski, *Central Michigan University*
 Alexander Moen, *Vanderbilt University*

William M. Young Intern in the Meese Center

Marcus Bauer, *Boston College*

Heritage also gratefully recognizes the following members who have named intern positions for 2013 and beyond:

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Heritage Fellows: Dedicated to Principled Scholarship

Heritage is home to some of the brightest conservative minds in America. To assure that we continue to attract and retain exemplary scholars, several donors graciously funded four new fellowships in 2012. As a result, we can proudly report:

- **Robert Alt** was named the Ed Gilbertson and Sherry Lindberg Gilbertson Senior Legal Fellow,
- **William Beach**, Director of our Center for Data Analysis, was tabbed as the Lazof Family Fellow,
- **Lindsey Burke** became the Will Skillman Fellow in Education, and
- **Nina Owcharenko**, Director of our Center for Health Policy Studies, is now also the Preston A. Wells Fellow in Health Policy.

Heritage has its first named directorship, too. When our Legal Center was rechristened in honor of Edwin Meese, its Director gained a new title as well. **Todd Gaziano** is now the John, Barbara, and Victoria Rumpel Director of the Edwin Meese III Center for Legal and Judicial Studies.

These five outstanding scholars join the ranks of Heritage's other named Fellows:

David L. Coffey Fellow in Government Studies
Danielle Doane

Marilyn and Fred Guardabassi Fellow in Media and Public Policy Studies
Kenneth McIntyre

Grover M. Hermann Fellow in Federal Budgetary Affairs

Patrick Louis Knudsen

Jay Kingham Fellow in International Regulatory Affairs

Brett D. Schaefer

F.M. Kirby Research Fellow in National Security Policy

Baker Spring

Mark A. Kolokotrones Fellow in Economic Freedom
Ambassador Terry Miller

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Luke Coffey

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

William E. Simon Fellow in Religion and a Free Society
Ryan Anderson



Face to Face Photography

Above: Distinguished Fellow Kim Holmes catches up with former Secretary of State Condoleezza Rice before hosting her national security speech June 20 in a packed Allison Auditorium.



Robert Alt

*Ed Gilbertson and Sherry Lindberg
Gilbertson Senior Legal Fellow*



Nina Owcharenko

*Preston A. Wells Fellow
in Health Policy*



William Beach
Lazof Family Fellow



Todd Gaziano

*John, Barbara, and
Victoria Rumpel Director of the
Edwin Meese III Center for
Legal and Judicial Studies*



Photos David Hills Photography

Lindsey Burke

Will Skillman Fellow in Education

Holmes Joins Ranks of Heritage Distinguished Fellows

Kim Holmes, Ph.D., became Heritage's newest Distinguished Fellow. Holmes joined Heritage in 1985 and rose to Vice President for Foreign and Defense Policy Studies in 1991. He took a four-year hiatus from Heritage to serve as an Assistant Secretary of State during President George W. Bush's first term.

A founding editor of Heritage's annual *Index of Economic Freedom*, Holmes' first project as Distinguished Fellow was to complete a book fusing Heritage's domestic and foreign policy ideas into a compelling new vision for America's future. The book's working title: *Rebound: Getting America Back to Great*.

He joins these other Distinguished Fellows at Heritage:

Stuart M. Butler, Ph.D.—Distinguished Fellow and Director, Center for Policy Innovation

Elaine Chao—Distinguished Fellow

Lee Edwards, Ph.D.—Distinguished Fellow in Conservative Thought

Ernest Istook—Distinguished Fellow

Edwin Meese III—Ronald Reagan Distinguished Fellow Emeritus

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Face to Face Photography

Heritage Members: Dedicated to Preserving Opportunity for All

Since its founding in 1973, Heritage has made its mark with scholarship. Because of our rigorous research and clear-sighted, commonsense policy recommendations, Heritage's work is read and respected in capitals around the world. Yet, our hidden strength remains our members: hundreds of thousands of Americans who provide us with necessary financial support and so much more.

Heritage remains far and away the most widely supported think tank in the world. In 2012, we welcomed more than 92,000 new members. Contributions to Heritage and Heritage Action topped \$80 million—an all-time record for us. We cannot thank you enough for this support.

Many of our members offer even more than their financial support. Their commitment to keeping America a land of opportunity for all leads them to volunteer their time and talents, as well. Some host policy briefings for like-minded conservatives in their communities. Others serve as Sentinels, keeping lawmakers' feet to the fire when a tough vote approaches. And all of it makes a difference.

Heritage and our members hosted eight events in 2012. From St. Louis to Honolulu, from Charlotte to Houston, Heritage members and their guests gathered to hear the latest developments in policy and politics from speakers such as Steve Forbes, Jeb Bush, Steven Moore and Art Laffer.

These meetings did more than simply inform. They encouraged thousands of local leaders to wade into the public debate and promote the conservative cause.

Those leaders, and hundreds of thousands more, kept in touch with Heritage through a variety of channels:

- Our main website, heritage.org, welcomed more than 11.2 million visitors—a 16 percent increase.
- Our membership team e-mailed 684,000 members and supporters each week—a 4 percent increase.
- The Foundry, our blog, drew nearly 10 million visitors—a 62 percent increase.
- Our Facebook “friends” roster exceeded 500,000—a 25 percent increase.
- The ranks of our Twitter followers swelled to 260,000—a 60 percent increase.
- Heritage Libertad, our Spanish-language website, drew more than 80,000 visitors—more than three times the traffic experienced a year earlier.



Shealah Craighead Photography

At a special event in October, Heritage Founders Kay Vee and Paul Rhoads congratulate Ed Meese (left) upon the naming of the Edwin Meese Center for Legal and Judicial Studies.

Leading the Fight for America's Future

Six years into our Leadership for America Campaign, Heritage members have made gifts, pledges, and commitments totaling more than \$544 million.

We'd like to recognize, here, the extraordinary generosity of those donors who have made contributions and commitments totaling \$1 million or more, including:

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Eight members have asked to remain anonymous.



Heritage Founders Bill Amos (right) and Mark Kolokotrones applaud remarks at the 2012 Annual Leadership Conference in Del Mar, Calif.



Heritage Associate Herman Obermayer and Trustee Meg Allen in deep conversation at a September 12 dinner honoring Trustee J. William Middendorf's half-century of distinguished service to the United States.

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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
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For details on the benefits attached to each level, please call (800) 546-2843 or visit myHeritage.org.



Legacy Society Members Bernard Lomas and Melisha Parker share a courtyard conversation at the Annual Leadership Conference in Del Mar, Calif.



Heritage Vice President John Von Kannon (left) with Peggy Jacobs and Founder Bob Howard at the Annual Leadership Conference.

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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. Indeed, our Articles of Incorporation demand it. Should any major donor desire a written contract clearly stating the purpose and intent of the donation and how it shall be spent, we will gladly sign it. Moreover, we make the President of Heritage personally responsible for answering donor questions and reporting expenditures of donor funds.

This is our solemn pledge to you: When you contribute to The Heritage Foundation, your intent as a donor is always honored, never forgotten.

Shealah Craighead Photography



Associate Members John Baden (left) and Ray Thompson spot a familiar face at the President's Club meeting in October.

Shealah Craighead Photography



Heritage Trustee (and former Secretary of the Navy) J. William Middendorf catches up with Heritage Associate (and former Secretary of Defense) Donald Rumsfeld at the 2012 President's Club meeting.

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 Mr. and Mrs. James Wintersteen
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 Mr. and Mrs. Edward S. Young
 Ms. Leslie Young
 Mr. Dan Zimmerman
 Mr. William Zimmerman
Forty-six Associates have asked to remain anonymous.

2012 Room Commitments

Heritage members contribute to our mission in numerous ways—including naming rooms in our buildings. We'd like to recognize, here, the generosity of those donors who made contributions and commitments to name such facilities in 2012.

S. Harrow Smith Offices made possible by the Estate of S. Harrow Smith

Anne Drotning Coors Executive Office Suite
 made possible by Mrs. Anne Coors

Jerry and Jackie Grossman Conference Room
 made possible by Mr. and Mrs. Jerry Grossman

The Armstrong Foundation Communications Suite for Freedom made possible by the Armstrong Foundation

Don & Jo Wells Distinguished Fellows Suite
 made possible by Mr. Richard Wells



Shealah Craighead Photography

Heritage Associates James and Mary Beth McGinley (left) chat with Pulitzer Prize-winning columnist Charles Krauthammer following his remarks to President's Club members in October.

A Legacy of Opportunity for Future Generations

In writing the Constitution, America's Founders were consciously establishing a legacy for future generations. Their explicit purpose, stated in the preamble, was to "secure the blessing of liberty to ourselves *and our posterity*."

Members of the Heritage Legacy Society share the Founders' concern for future generations. Co-chaired by Rae and Belden Bell of Marshall, Va., and Marion Wells of Ft. Lauderdale, Fla., the Heritage Legacy Society welcomes members who wish to contribute to our cause through their estates or other planned gifts.

Mr. Anthony J. Alfano	Mr. and Mrs. Glenn Hersch	Mr. Ernest W. Smith	Mr. and Mrs. R. Pete Vann
Mr. James R. Allen	Mr. Gene E. Hollen	Mr. Gerard A. Smith	Mr. Mark Veckman
Ms. Liz Allora	Mr. Allan D. Hulme	Dr. and Mrs. Mark A. H. Smith, Jr., MD	Mr. and Mrs. T. Urling Walker
Mrs. Janice E. Anderson	Mr. Al Huntton	William H. Smith	Mr. and Mrs. E.J. Wallgren
Mrs. Hugh M. Askren	Mr. Harold B. Igdaloff	Ms. Margaret Snowdon	Mr. Thomas Watling
Mr. and Mrs. Daly R. Bales	Mr. Thomas P. Janas	John L. Stanley	Ms. Barbara Wells
Mr. and Mrs. Richard W. Bartlett	Mr. and Mrs. Harry L. Janek	Mr. Jerome Stark	Mr. Robert Wendell
Mr. and Mrs. Hank Bathey	Mr. James Johnson, Jr.	Mr. J. Hugh Steele	Mrs. Virginia Wheeler
Mr. John N. Bathurst	Mrs. Joanne Taylor Johnson	Mr. and Mrs. Gerald Strickland	Dr. and Mrs. John Wiebe
Mr. and Mrs. Ronald O. Baukol	Dr. and Mrs. Kenneth C. Johnson	Mr. Pike H. Sullivan	Mr. and Mrs. Christopher Williams
Ms. Isabelle J. Berg	Mr. Brent Jones	Mr. and Mrs. Joe Sutton	Mr. H. W. Williams
Mr. Brad Biérgert	Mr. and Mrs. Robert H. Kellen	Ms. Mary G. Swartz	Mr. Robert F. Williams
Mr. and Mrs. Stanley T. Bienus	Mr. and Mrs. Bruce Forbes Kemp, Jr.	Dr. Mirian H. Taddei	Mr. Robert Wood
Mr. James Biggs	Mr. Patrick Dennis Kennedy	Mrs. Suzanna Thieblot	Mr. Harry Wu
Mr. Jason A. Boch	Mr. Joe Kennington	Mr. and Mrs. Donald G. Thomas	Ms. Barbara Zerby
Mr. Merle G. Brakefield	Mr. James H. Ketchum	Mr. Robert O. Thompson	<i>Thirteen Heritage Legacy Society</i>
Mr. Frank W. Brower, Jr.	Mr. Seung Kim	Mr. and Mrs. Hugh Trotti, Jr.	<i>members wish to remain anonymous.</i>
Mr. and Mrs. Don Brown	Mr. and Mrs. Charles B. Kimball	Mr. and Mrs. Huh Tsuei	
Mr. Jack Burke	Mr. and Mrs. Kevin S. Kookogey		
Mr. and Mrs. Allen M. Burt	Mr. Ronald M. Krump		
Mrs. Jean Busch	Mr. Robert W. Kummer, Sr.		
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Mr. and Mrs. Bruce L. Calhoun	Mr. Paul Leipprandt		
Mr. and Mrs. R. Craig Campbell	Mrs. Judith G. Lopez		
Mr. James M. Cantrell, Jr.	Mr. and Mrs. Richard C. Malmer		
Mr. D. J. Carder	Mr. Claudio S. Mariotta		
Ms. Carol Carpenter	Mr. and Mrs. Milton A. Marquard		
Mr. William S. Carter	Michael McQuade		
Mr. Cris G. Cavallaro	Mrs. Naomi N. Merchant		
Mr. Victor Churchward	Mrs. Dae Miller		
Mr. Robert Clifford	Ms. Amy Minning		
Mr. Donald Combes	Ms. Nancy E. Moore		
Mr. Robert W. Considine	Ms. Katy A. Moss		
Mr. James Cordes	Ms. Danna D. Munsey		
Mr. and Mrs. John Coussoule	Mrs. Ann Nall		
Mr. S. Donald D'Alfonzo	Mr. John P. Nelson		
Dr. W. M. Dallas, Jr.	Mr. Leslie Nesbitt		
Mr. and Mrs. Bill Descher	Ms. Lauren Newington		
Ms. Linda Dick	Mr. Ron Olive		
Mr. Allen Dieter	Mrs. Nan Osbon		
Mr. Robert J. Dreisbach	Mrs. Yvonne Oshima		
Mr. and Mrs. William S. Edgerly	Mr. and Mrs. Don Parrott		
Mr. Donald Edwards	Dr. and Mrs. Robert S. Pepper		
Mrs. Patty A. Edwards	Mr. and Mrs. James A. Plute		
Dr. James H. Eldredge, M.D.	Mrs. Elaine Portnoy		
Dr. and Mrs. A. John Elliott	Mrs. Marguerite Potter		
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Mr. A. Wayne Field	Mr. Wilson F. Rigler		
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Mr. Donald D. Hall	Mr. David A. Saxe		
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Mr. Vance L. Harris	Mr. Willis B. Skillman		
Mr. and Mrs. Edwin F. Hawxhurst	Mr. Charles R. Skinner		
Mr. and Mrs. John W. Hedberg	Mrs. Barbara B. Smith		

With gratitude, we honor the memory of those Heritage Legacy Society members whose gifts we received in 2012:

Mrs. Lenore C. Anderson	Mrs. Katherine T. Morrison
Mr. Paul Bach	Ms. Dorothy Mullin
Mr. Richard Bosted	Mr. Morton E. Nager
Mr. Clem F. Burnett, Jr.	Mrs. Geraldine Newcomer
Mr. R. W. Buttrey	Mr. Rodney M. Norris
Mrs. Erma Christensen	Ms. Virginia A. Odom
Mrs. Josephine Comodo	Mr. Aaron B. Powers
Ms. Sue H. De Shazo	Mrs. G. Ralston
Mr. Harold L. Diekemper	Mr. Herman R. Rasch
Mr. Frederick M. Dierks	Mrs. Irene Reindl
Mr. and Mrs. Cortland S. Dietler	Mr. Mercer Rhodes
Mrs. Marjorie Dresher	Mrs. Helen R. Richman
Ms. Donna M. Dugaw	Mr. and Mrs. Paul S. Riedel
Mr. Gordon O. Ewin	Mr. Hans G. Rieger
Mrs. Nona Foster	Mrs. Dorothy E. Roberson
Mr. R. M. Freedman	Mrs. Eva M. Sewall
Mr. William Gardner	Mrs. Natalie Sirkin
Ms. Debra Hall	Mr. Joseph Slocum
Mr. Joe Huskins	Mr. and Mrs. A. F. Smith
Mrs. Miki Iwata	Mr. Ernest N. Smith
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Mrs. Patricia Jager	Mr. and Mrs. Theodore Smyth
Mrs. Eva M. Johnson	Mr. C. Edwin Stricker
Mr. John P. Kavooras	Mr. William Susen
Mr. John Keller	Mrs. Mary F. Van Zanten
Mr. James S. Kinkead, Jr.	Mr. and Mrs. Charles W. Walton
Mr. James S. Klein	Mr. Marshall D. Ward
Mr. Harold Leonard	Mr. Randall Warren
Mrs. and Mr. Dixie J. Loveless	Mr. Wilfred L. Was II
Mr. Martin H. McDonald	Mrs. Dorothy L. White
Mr. Ray E. McGowan	Mr. and Mrs. Verne M. Willaman
Mr. Edward Mitchonie	Mr. and Mrs. Sylvan H. Wittwer
Mr. Elmer C. Moore	

Barnett Photography



Heritage Trustees Todd Herrick and Midge Decter mix and mingle at the courtyard reception of the Annual Leadership Conference in Del Mar, Calif.

Barnett Photography



Heritage Associate Ann Lewis and Morgan Middlemas join forces between sessions at May's Annual Leadership Conference.

Shealah Craighead Photography



Legacy Society Members Sherry (left) and Ed Gilbertson (second from right) share a light moment with Ed Meese and Ed Feulner (right) at the 2012 President's Club Meeting.

Patti Gabriel Photography



Heritage Associate (and former Ambassador) Stephen Brauer (right) joins a lively discussion with Heritage Trustee Steve Forbes at an intimate member event in St. Louis.

Barnett Photography



Heritage Legacy Society Members Anne Coors (left) and Jackie Laver visit between sessions at the Annual Leadership Conference in Del Mar, Calif.

Barnett Photography



Heritage Founders Robert and Star Pepper review some of the books and research papers featured at the Annual Leadership Conference.



Chas Gear

Edwin J. Feulner: 36 Years of Principled Leadership

"Ed Feulner stands as one of the great public-policy innovators of the 20th century."

—JOHN PODHORETZ, COMMENTARY MAGAZINE,
DECEMBER 6, 2012

In 2012, the man who first envisioned and then built The Heritage Foundation announced he would step down as President on April 3, 2013—the 36th anniversary of his presidency.

In the early '70s, Feulner and conservative activist Paul Weyrich hatched the then-novel idea of an independent research institute able to provide lawmakers with sound facts and policy recommendations consonant with conservative principles. When Heritage opened its doors in 1973, Feulner served as a Founding Trustee.

Four years later, he was named President. He took charge of a staff of 25 who toiled cheek-by-jowl in a ramshackle two-story townhouse. Under his leadership, Heritage blossomed into an internationally-recognized research institution with a staff of 250, state-of-the-art offices on both sides of the Capitol, and an annual budget of more than \$80 million.

But Feulner built more than a lasting institution. He built a contemporary conservative movement.

When Feulner leaves the president's office, he won't sever all ties with Heritage. "We are thrilled that Ed has agreed to stay on as Founder of the Foundation and Chairman of our Asian Studies Center," Saunders announced in December. "It gives us every confidence that, for Heritage and for the conservative movement overall, the best is yet to come." ☀



The Heritage Foundation

Top: During a 2004 visit to Heritage headquarters, Margaret Thatcher and Ed Feulner discuss the enduring need for America to exert global leadership. Above: Ed Feulner helps tear down the Berlin Wall during a 1990 fact-finding trip to Europe with Heritage Trustees and foreign policy experts.



Following his keynote address at Heritage's 25th Anniversary Dinner in Grand Rapids, Mich., House Speaker Newt Gingrich (left) shares a laugh with Ed Feulner.



Ed Feulner introduces President George W. Bush to an SRO audience in Allison Auditorium. The Nov. 1, 2007, speech, broadcast live, reached a TV audience of 31 million.



Milton and Rose Friedman join Presidents Feulner and Reagan (and 1,500 other guests) at the Oct. 3, 1983, dinner celebrating Heritage's 10th Anniversary.



Senior Management Triumvirate: Executive Vice President Phil Truluck (left), Vice President John Von Kannon (center), and President Ed Feulner shown here celebrating their 25th anniversary with Heritage—in 2002! All three remain on the job with Heritage today.



*The White House
Ed Feulner (right) introduces Nobel Laureate Friedrich Hayek to President Reagan during an Oval Office visit.*



Ed Feulner applauds Shelby Cullom Davis and Kathryn Davis, winners of the first Clare Boothe Luce Award, presented in 1991.

Photos: Chas Geer

2012 Financial Statements

STATEMENT OF FINANCIAL POSITION*

As of December 31, 2012

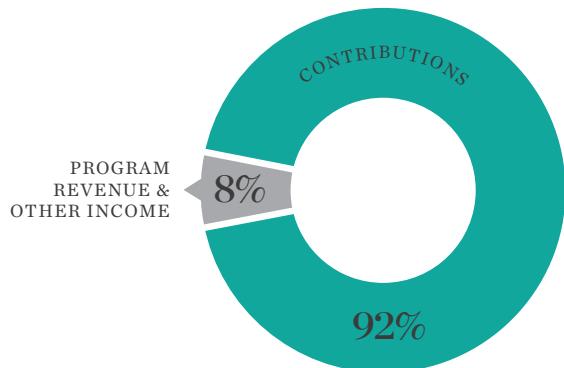
ASSETS:

Cash & cash equivalents	\$5,420,496
Receivables	\$7,573,922
Prepayments & other assets	\$1,152,381
Total current assets	\$14,146,799
Investments	\$117,972,173
Receivables, net	\$2,524,641
Property & equipment, net	\$62,359,728
Other assets	\$498,780
Total long-term assets	\$183,355,322
TOTAL ASSETS:	\$197,502,121

LIABILITIES & NET ASSETS:

Accounts payable & accrued expenses	\$10,355,826
Notes payable	\$4,672,852
Total current liabilities	\$15,028,678
Notes payable	\$14,018,555
Deferred obligations & planned gifts	\$17,304,868
Total long-term liabilities	\$31,323,423
TOTAL LIABILITIES:	\$46,352,101
Unrestricted net assets:	
Board designated	\$98,088,050
Undesignated	\$38,884,285
Temporarily restricted net assets	\$11,577,141
Permanently restricted net assets	\$2,600,545
Total net assets	\$151,150,020
TOTAL LIABILITIES & NET ASSETS:	\$197,502,121

2012 OPERATING REVENUE



*Preliminary results—final audited financial statements will be available on or after July 31, 2013.

STATEMENT OF ACTIVITIES*

Year ended December 31, 2012

OPERATING REVENUES

Contributions:	
Individuals	\$59,100,988
Foundations	\$10,214,986
Corporations	\$3,648,209
Total operating contributions	\$72,964,183
Investment withdrawal	\$4,664,281
Program revenue	\$132,503
Rental & other income	\$1,547,677
Total other operating income	\$6,344,461
TOTAL OPERATING REVENUE	\$79,308,644

OPERATING EXPENSES

Research	\$25,033,446
Education	\$22,757,678
Media & government relations	\$11,378,839
Total program services	\$59,169,963
Fundraising	\$15,171,785
Management & general	\$2,119,305
Total supporting services	\$17,291,090
TOTAL OPERATING EXPENSES	\$76,461,053
NET GAIN FROM OPERATIONS	\$2,847,591

NON-OPERATING ACTIVITIES

+ Net unrealized investment gain	\$10,853,070
+ Restricted contributions	\$5,735,415
(-) Depreciation	\$3,311,019
(-) Interest Expense	\$309,615
(-) Investment withdrawal	\$4,664,281
(-) Change in restricted net assets	\$3,232,686

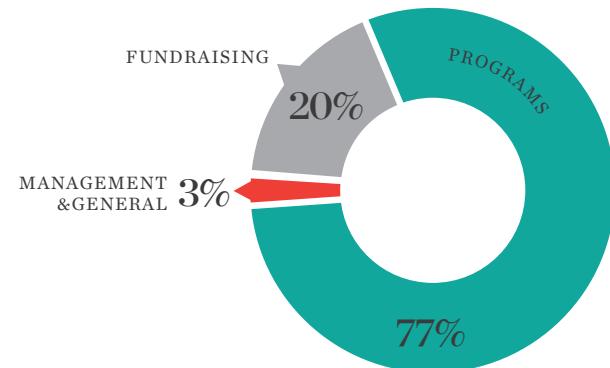
TOTAL NON-OPERATING ACTIVITIES **\$5,070,884**

CHANGE IN NET ASSETS **\$7,918,477**

NET ASSETS - Beginning of year **\$143,231,543**

NET ASSETS - End of year **\$151,150,020**

2012 OPERATING EXPENSES



The Heritage Foundation Staff

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Cully Stimson
Kathleen Rowan
Robert Steele
Missy Stephens
Kenneth Sheffer
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Richard McAdams

Lori McNicoll

Jay Rinehart

Caitlin Rowan

Leah Sammons

Doug Stamps

Jeffrey Trimble

Membership Programs

Christine Fogarty

Erin Bender

S

WHAT THEY'RE SAYING ABOUT ...

... The Heritage Foundation:

"the most important conservative organization in the country and the most influential think tank in the world."

—NEAL B. FREEMAN,
AMERICAN SPECTATOR, NOV. 12, 2012

"the strongest ideas machine in Washington."

—JOHN O'SULLIVAN,
NATIONAL REVIEW ONLINE, DEC. 10, 2012

"Heritage cultivates and maintains a bench of conservative manpower unrivaled in the policy influencing world. Indeed, a friend from a liberal nonprofit once described going up against Heritage as 'fighting a well trained Army with a pick-up team.'"

—LORELEI KELLY,
ROLL CALL, DEC. 18, 2012

... Outgoing President Ed Feulner:

"Four decades ago, conservatives, lacking significant support in academia, began to build an alternative intellectual infrastructure. Ed Feulner, founding father of the Heritage Foundation, showed the way ..."

—GEORGE F. WILL, SYNDICATED COLUMNIST

"Many come to Washington to make a difference. Few have had the same monumental impact as Ed Feulner."

—CAL THOMAS, SYNDICATED COLUMNIST

"Ed Feulner stands as one of the great public-policy innovators of the 20th century."

—JOHN PODHORETZ,
COMMENTARY MAGAZINE, DEC. 6, 2012

... Incoming President Jim DeMint:

"Congratulations Jim DeMint. Your strong voice for Liberty will be missed in the Senate, but it will continue to resonate across the country."

—SENATOR RAND PAUL (R-KY.),
DEC. 6, 2012

"There is no better choice than Jim DeMint to lead this great organization."

—REPRESENTATIVE JIM JORDAN (R-OHIO),
CHAIRMAN, REPUBLICAN STUDY GROUP, DEC. 6, 2012

"Here's my take on Jim DeMint and Heritage: Conservatives should be really excited by this."

—ERICK ERICKSON,
FOUNDER, REDSTATE.COM, DEC. 6, 2012

... The Future:

"Sen. DeMint's move to Heritage is a sign of the conservative movement's strength and confirms that Heritage will remain an intellectual powerhouse for decades to come. ... an ideal fit for the conservative movement's leading think tank."

—SENATOR TED CRUZ (R-TEXAS), DEC. 6, 2012

"... the building blocks are there for DeMint and the conservative Heritage Foundation to build a powerful operation with political clout."

—PETER OVERBY
"ALL THINGS CONSIDERED," NPR, DEC. 10, 2012

"What a moment for an institution like Heritage and a man like Mr. DeMint. And what an opportunity has been handed over by Mr. Feulner."

—NEW YORK SUN EDITORIAL, DEC. 8, 2012