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The Brookings Institution is an independent, nonpartisan research organization that seeks to improve the performance and the quality of U.S. public policies. Experts at Brookings have blue-ribbon academic credentials as well as long experience in business, government, and nonprofit organizations. Their research, aimed at offering practical approaches to policy questions, is presented in language that is both engaging and accessible to the general public. ■ Brookings has four main research programs: Economic Studies, Foreign Policy Studies, Governance Studies, and Metropolitan Policy. It also sponsors a variety of centers and initiatives devoted to research areas including global poverty, national security, welfare reform, human rights, tax and budget policy, education, public service, regulatory policy, and particular regions around the world, including Europe, the Middle East, Northeast Asia, and South Asia. ■ A major focus of the Brookings Institution's efforts is to ensure that its research is effectively disseminated. Scholars write books, policy briefs, journal articles, and op-ed pieces. They testify on Capitol Hill and hold private, off-the-record meetings with policymakers, their staffs, and other experts seeking their advice. Brookings conducts regular press briefings open to the public at its Washington headquarters, which is also home to a television and radio studio. Most Brookings research is available at www.brookings.edu. ■ Brookings is named for entrepreneur and philanthropist Robert S. Brookings, whose leadership was instrumental in its early development. In 1916, a group of reformers founded the Institute for Government Research (IGR), the first private organization devoted to analyzing public policy issues at the national level. In 1922 and 1924, Robert Brookings, one of IGR's backers, established two supporting sister organizations: the Institute of Economics and a graduate school bearing his name. In 1927, the three groups merged to form the Brookings Institution. ■ Today, Brookings is financed largely through the support of philanthropic foundations, corporations, and individuals and by an endowment. Funds are devoted to carrying out research and educational activities. Brookings also undertakes some unclassified government contract studies, reserving the right to publish its findings. ■ A Board of Trustees is responsible for supervising Brookings, approving its areas of investigation, and safeguarding the independence of its work. The Institution's president is its chief executive officer and is responsible for formulating and setting policies, recommending projects, approving publications, and selecting staff.



Reporters question Charles "Jack" Pritchard, a visiting fellow in Foreign Policy Studies, after his return from a trip to North Korea

TOM WILLIAMS



John L. Thornton

KATHERINE LAMBERT

CHAIRMAN'S MESSAGE

Near the end of the year, I made one of my regular visits to Brookings and got a glimpse of the Institution at its best, from a somewhat unusual angle. I thought I would share this vignette of Brookings life because I think it captures the spirit and energy of the Institution.

One of China's new, important regional leaders, Governor Zhang Wenye of Liaoning Province, was making his first visit to the United States. He had agreed to spend a morning at Brookings as part of what he hoped would be a crash course on American political, economic, and social trends. Richard Bush, director of the Brookings Center for Northeast Asian Policy Studies, and his team organized a five-hour briefing that gave the governor a good feel for America's priorities and allowed him to share his own thoughts on the problems and opportunities he faces in trying to reform a region at the heart of China's rust belt.

Brookings scholars were able to relate their work to many areas of vital interest to Governor Zhang. Amy Liu of our Metropolitan Policy program briefed him on innovative and sophisticated ideas about what makes cities successful—essential information for an official who will oversee some of the largest and most rapid urbanization in history. Tom Mann of Governance Studies briefed him on the intricacies of U.S. politics, providing crucial guidance for someone who hopes to bring his economy into ever-closer alignment with the economy in the United States. Finally, Richard Bush gathered a high-powered group of Washington policymakers who engaged the governor in a lively lunchtime chat about the future direction of U.S.-China relations. All in all, Brookings supplied a coherent framework for the important tasks ahead, and the governor was so grateful that he was still speaking of it weeks later.

Providing this sort of clear, objective, and useful framework is what Brookings has always done best. What it does better than ever is respond quickly and on an even wider range of issues. Because 2004 was a presidential election year, much of the activity at Brookings focused on domestic politics. In a steady stream of forums, policy briefs, books, articles, interviews, and website commentaries, our scholars assessed the state of the economy, the threat of terrorism, the occupation of Iraq, and other issues facing American voters.

We also began establishing the Brookings China Center, which I hope in coming years will become the leading American source of high-quality, objective research about China. Brookings pushed forward on other international fronts as well, notably in South Asia, where our scholars are in partnership with two Indian think tanks. The Saban Center for Middle East Policy continues to provide indispensable connections to—and within—a region riven by conflict.

I want to thank you for your continued support of Brookings and encourage you to experience firsthand, the way I have, the work of our outstanding scholars. At the Brookings website, www.brookings.edu, it's easy to download our best new research, print it, and review it at home or while you travel. Like me, you'll feel invigorated by the quality of our scholars' work. It's original, fact-driven, and fair-minded. Please feel free to get back to Brookings with your reactions. Our scholars welcome your feedback, and don't mind a bit if you challenge their thinking. The contest of ideas, after all, is what Brookings is all about. ■



Strobe Talbott

KATHERINE LAMBERT

PRESIDENT'S MESSAGE

Nonpartisan public-policy research based on empirical evidence is an especially rare and valuable commodity in a presidential election year. In 2004, Brookings's job was to shed light on the issues that generated so much heat in the campaign: Iraq, America's relations with its allies, the federal deficit, taxes, jobs, health care, stem-cell research, same-sex marriage, and education.

As our scholars brought their individual expertise to bear on questions that often polarized the electorate—tough issues on which neither major political party has a monopoly on truth or wisdom—they held to a high standard of civil discourse. For example, debating the war in Iraq and its messy aftermath, our scholars kept their minds open to one another—and to the facts as they became clearer. Those who had accepted U.S. intelligence estimates about Iraq's weapons of mass destruction as a basis for military action recalibrated their analysis and adjusted their recommendations when no such weapons were found.

Scholars in our Foreign Policy Studies department identified the problems besetting the reconstruction effort and recommended a series of changes, many of which the administration adopted during the year. Our new Center on the United States and Europe helped maintain a transatlantic dialogue at a time of intense strain between the U.S. and its key allies.

On the home front, our economists' estimates of the costs and distributional effects of the tax cuts proved useful to congressional staffs on both sides of the aisle. Journalists and editorial writers across the country relied on a Brookings report, "Restoring Fiscal Sanity," for authoritative, objective information about the federal budget. In the last debate with Senator Kerry, less than three weeks before the election, President Bush himself used the term "fiscal sanity" three times—and promised to halve the deficit within five years.

Meanwhile, the deficit is forcing a reinvention of the American federal system. Governors, county commissioners, and mayors are under increasing pressure to look for ways at the state and local levels to bolster economic innovation, equitable and efficient public services, urban regeneration, and balanced growth. They need all the help they can get, and they are getting it from our Metropolitan Policy program, which over the past eight years has taken sophisticated policy analysis far beyond the Beltway—to upstate New York, Pennsylvania, Missouri, Florida, Georgia, Missouri, North Carolina, and California.

Our Governance Studies program contributed to public understanding of the drama with a series of forums and policy papers that examined everything from the effects of the "permanent campaign" to the role of money and the new campaign finance law. In the weeks before the voting, our scholars zeroed in on many of the factors that would prove decisive on Election Day, including the impact of all-out efforts to mobilize constituencies and boost turnout.

Once the voters re-elected President Bush, he asked Democrats to help him make "this country stronger and better," and John Kerry, preparing to return to work in the Senate, pledged to reach across the "partisan divide." Brookings went about its own business in precisely that spirit all year, and we will continue to do so in 2005, whatever challenges it holds for the nation at home and abroad. ■

A Week at Brookings

FRIDAY, JANUARY 9, TO THURSDAY, JANUARY 15, 2004

Work at Brookings tends to mirror the pace of official Washington, with slower periods when Congress is in recess and during the dog days of summer. As the New Year's holiday approached, and with many lawmakers back in their districts, Brookings scholars tied up loose ends and took vacation time with their families.

It was the calm before the storm: When the calendar flips to a new year, especially an election year, Brookings scholars know that business will be brisk along Think Tank Row.

So it was during the second week of January 2004, a week busier than most but less hectic than some. The seven-day stretch provided a snapshot of Brookings in action.

FRIDAY, JANUARY 9

More than 9,000 miles from 1775 Massachusetts Avenue, Brookings scholars joined 150 leaders from the United States and 37 Muslim countries in Doha, Qatar, for the first U.S.-Islamic World Forum. The forum—a new initiative of the Brookings Project on U.S. Policy Towards the Islamic World, a Saban Center for Middle East Policy program that was created after the September 11 attacks—targets the need for constructive dialogue between policymakers and opinion shapers in the United States and across Muslim states and communities. The Doha conference aimed to create a much-needed venue for candor and cooperation between the United States and the Islamic world.

Sheikh Hamad bin Khal-

ifa Al-Thani, the emir of Qatar, opened the weekend's events with a blunt assessment of the Arab-Israeli conflict and the need to push harder to resolve the stalemate in the Middle East. He also announced the opening of a Brookings office in Doha to help organize the U.S.-Islamic World project.

Al-Thani's opening address set the tone for the weekend. Discussions in subsequent plenary sessions and working groups were substantive but sometimes tense, reflecting the charged political environment.

A particularly interesting exchange occurred between Fox News Channel's Tony Snow and Al Jazeera's deputy managing editor, Maher Abdullah, who both spoke on a panel examining the media's coverage of the Middle East.

Martin Indyk, director of the Saban Center and one of the conveners of the forum, witnessed the dispute and applauded it. "This is the only place

where that sort of thing can take place," he said. "It's useful."

Peter W. Singer, Brookings's national security fellow, directed the forum. He said that merely holding the conference was an important step. "The fact that we were able to convene such a diverse group of important leaders helped advance communication—that, by itself, is progress."

SATURDAY, JANUARY 10

In Beijing, visiting fellow Charles "Jack" Pritchard sat in his hotel room, watching the snow fall on the bustling streets below. He was sorting out conversations and impressions from his previous five days in North Korea.

Pritchard, who left his Bush administration post as special envoy for negotiations with North Korea in August 2003, had traveled to Pyongyang as part of an unofficial U.S. delegation invited by the North Korean government. During his visit, he met with Vice Foreign Minister Kim Kye Gwan and former Deputy Ambassador to the United Nations Li Gun, and was briefed by a member of the Committee for the

Promotion of International Trade on efforts to allow elements of a market economy into North Korea.

Pritchard had been struck by the vibrant activity he saw in Pyongyang, whose streets buzzed with bicycles and automobiles. Markets teemed with vendors selling clothing, food, and electronics. All of this differed greatly from the stringent conditions during his first visit in 1997, suggesting that the quality of life had improved markedly.

As Pritchard looked out the window, he thought about his recent visit to a nuclear facility in Yongbyon and what he would say to the American public when he returned home. On his answering machine at Brookings, more than 50 interview requests awaited his response.

Back in Doha, the conference convened several panels throughout the day to examine the Iraq war, the Middle East peace process, free trade and economic development, education, and the role of the private sector in easing tensions between Muslim countries and the United States. Speakers included Marwan Muasher, foreign minister of Jordan; Mohammed Dahlan, former interior minister for the Palestinian Authority; Richard Holbrooke, former U.S. ambassador to the United Nations; Qazi Hussein Ahmed, leader of the Jamaat-e-Islami Party of Pakistan; Gene Sperling, director of the Center for

Universal Education; Seyyed Camel Al-Keilani, minister of finance in the Iraqi interim government; and Edward Djerejian, director of the Baker Institute at Rice University and chair of the U.S. Commission on Public Diplomacy.

The conference schedule was carefully designed to allow for informal interaction among attendees, including extended coffee breaks and a free Saturday evening that prompted many delegates to arrange private dinner parties. During the day, roundtable discussions spilled into the hallways and participants could be seen arguing, nodding in agreement, and swapping e-mail addresses. Among the spontaneously organized dinners were ones for delegates from Israel and Palestinian areas and from India and Pakistan.

The casual get-togethers spurred action on several fronts: "Track 2" peace discussions (unofficial, civilian diplomacy), a foreign policy caucus of American Muslim leaders, and a partnership between a U.S. foundation and the Egyptian government to build an American nursing school in Cairo were established.

SUNDAY, JANUARY 11

"I have come a long way to spend a short time because I believe that this is an important meeting, being held in the proper place," said former President Clinton in a speech that closed the Doha conference.

Clinton stressed the interdependence between the United States and the Islamic world and disarmed his Islamic audience by first admitting American mistakes and pointing to problems Muslims face in their own countries.

"There are honest and perplexing misunderstandings. That's why this meeting is a good thing," he said.

After Clinton's speech, the audience, many of whom were hostile to the United States, gave the former president a standing ovation. Others praised him for his clear, honest explanation of U.S. intentions in the Middle East.

At the close of the weekend, Singer hailed the conference as a powerful convening body and a catalyst for action. "This has become the meeting place for U.S. and Muslim leaders," he said. "The fact that we saw both agreement as well as the venting of anger demonstrates exactly why this conference was so important and successful."

The forum will follow up the Doha meetings with a series of joint initiatives—research, publications, and outreach—designed to strengthen ties between the United States and the Islamic world.

MONDAY, JANUARY 12

Back in Washington, Brookings held a press luncheon to unveil its Restoring Fiscal Sanity project so that journalists would have background for the next night's State of the Union address and the release of the president's budget on February 2. Concerned about the swelling deficit, Brookings econo-

mists undertook the project in hopes of finding a way to get the budget back in balance. Attending the luncheon were journalists from *BusinessWeek*, *The New York Times*, *The Wall Street Journal*, *The Washington Post*, and other major news outlets. The luncheon proved timely for another reason, coming the day after a *60 Minutes* interview with Paul O'Neill, the former Bush administration Treasury secretary, whose book, *The Price of Loyalty*, warned of a looming "fiscal crisis."

TUESDAY, JANUARY 13

At a standing-room-only event in Falk Auditorium, three blue-ribbon panels discussed the 98-page "Restoring Fiscal Sanity" report. Panelists included former Treasury Secretary Robert E. Rubin, former Congressional Budget Office Director Dan L. Crippen, Urban Institute President Robert D. Reichauer, former Congressman John Edward Porter (R-Ill.), and members of the nine-scholar team that had spent three months working on the project.

Rubin said that the United States faced a "horrendous long-term situation," adding that "the risks are severe and they need to be taken very seriously."

The authors argued that achieving fiscal balance would be difficult but possible, and they presented three options for reducing the deficit over the next 10 years:

- A "smaller government plan" advocated less spending by scaling back business subsidies, restricting entitlements,



Budget talk: Robert Rubin and Dan Crippen discuss "Restoring Fiscal Sanity"

devolving responsibility to the states, and reducing federal pork.

- A "larger government plan" relied both on tax increases to sustain government activity and on new spending initiatives.
- A "better government plan" called for improved government efficiency and effectiveness through a combination of spending cuts and revenue increases that would balance the budget while maintaining government at its current size.

The authors briefed Congress on their findings on several occasions and made numerous media appearances. The project generated more than 80 articles in major daily and weekly publications.

WEDNESDAY, JANUARY 14

Less than a week before the Iowa caucuses, Brookings rang in the election year with a briefing titled "Front-loading the Primaries: The Wrong Approach to Presidential Politics?" Panelists included Brookings Journalist-in-Residence Ron Nessen, senior fellow Thomas E. Mann, visiting fellow and Colby College Professor Anthony Corrado, and Northeastern University Associate Pro-

fessor William G. Mayer. Panelists discussed the cascading primary and caucus system that has shortened the nomination process to a sprint. One of the panelists, Mayer, was co-author

THURSDAY, JANUARY 15

In his first public comments since returning from North Korea, Charles Pritchard spoke to an overflow crowd in Falk Auditorium about his trip and the future of U.S.-North Korea diplomacy. He chose his words carefully, putting off more detailed comment until after delegation metallurgist Siegfried S. Hecker could testify before the Senate Foreign Relations Committee.

"The only piece of information I will give you today," Pritchard said, "is that the spent-fuel facility—the storage pond—was empty." The pond once held 8,000 spent fuel rods. Since transporting the rods to a safe location would have been extremely dangerous and impractical, many in the delegation concluded that the rods had been reprocessed to extract plutonium from the spent fuel, which could then be used to build a nuclear weapon. Although Pritchard said that the reprocessing center was not functioning at the time of his visit, a five-megawatt reactor was operational,

and the North Koreans admitted to reprocessing plutonium.

Much of Pritchard's conversations with Vice Foreign Minister Kim Kye Gwan focused on the possibility of future six-party talks that would involve North Korea, South Korea, Japan, China, Russia, and the United States. The Bush administration had consistently demanded a "complete, irreversible, and verifiable" dismantling of North Korea's nuclear program and had refused to deal directly with the country or offer any concessions besides an assurance not to attack it. In the months after Pritchard's visit, the Bush administration appeared willing to adopt a more flexible approach.

More than 80 members of the national and international press were in attendance, and Pritchard later wrote an op-ed article about his visit for *The New York Times*.

In his *Wall Street Journal* column that morning, Al Hunt praised the Restoring Fiscal Sanity project. "If, as politicians of both parties insist, the long-term goal is to get back to a balanced budget in good times, the report this week by the Brookings Institution is even more sobering....To get to a balanced budget in a decade, the Brookings experts figure, would require eliminating virtually all federal grant-in-aid programs for education, housing, job training, the environment, and law enforcement. But that still wouldn't do the trick; \$134 billion more in tax increases for that year would be necessary." ■



Doha: President Clinton and the Emir of Qatar meet at the January conference

Foreign Policy Studies

In a year when the Iraq war, the nuclear crises in North Korea and Iran, and continuing concern about terrorism dominated the headlines, the Foreign Policy Studies program, directed by Vice President James B. Steinberg, once again served as a key resource for government, news media, and the public.

Brookings scholars offered an informed, objective view of world events and innovative policy ideas as they testified before Congress; advised the executive branch; presented their recommendations and opinions in newspapers, journals, and magazines; and shared their expertise on news and talk programs.

In addition to examining urgent topical events, Brookings experts researched, analyzed, and commented on a range of other issues of growing importance in the 21st century, such as America's strained ties with Europe, its evolving relationship with China and key partners in East Asia (Japan, Korea, and Taiwan), and its complex interactions with the Islamic world. Critical issues such as global climate change, the international rules governing the use of force, and homeland security were also at the forefront of Brookings scholarship.

These efforts resulted in new and expanded research centers, projects, and initiatives.

Iraq, of course, was a major focus at home and abroad, and Foreign Policy Studies brought to bear its expertise, drawing on the Saban Center for Middle East Policy, directed by senior fellow Martin Indyk, former U.S. ambassador to Israel and former assistant secretary of state for Near East affairs, and other Brookings analysts, including Ivo Daalder, Philip Gordon, and Steinberg.

The primary Brookings scholar on Iraq was Kenneth Pollack, director of research for the Saban Center and former Iraq specialist at the CIA and the National Security Council. He provided keen analysis based on his government experience and firsthand observations in Iraq after the war.

The Iraq analysis by Foreign Policy scholars was quoted in more than 1,500 newspaper and television news reports. Brookings scholars also wrote more than 60 op-ed articles on Iraq for major newspapers.

In one of the most innovative examples of Brookings scholarship, senior fellow Michael O'Hanlon, who holds the Sydney Stein Jr. Chair, and senior research assistant Adriana Lins de Albuquerque compiled a periodic "Iraq Index" to quantify and track progress and setbacks in reconstruction and security during the post-war period. The Index is published regularly on the op-ed page of *The New York Times*.

Senior fellow Ivo Daalder, flanked by Robert Kagan of the Carnegie Endowment, left, and Javier Solana, the EU's foreign policy chief, assesses U.S.-Europe relations after Iraq

TOM WILLIAMS

Central to understanding the larger context of the war and its aftermath is America's long-term relationship with the Islamic world. The Brookings Project on U.S. Policy Towards the Islamic World is a unique research and outreach program focused on this important issue. Directed by national security fellow Peter W. Singer, the project is supported by the John D. and Catherine T. MacArthur Foundation, the Ford Foundation, the Education for Employment Foundation, the United States Institute of Peace, the Government of Qatar, and individual donors.

The controversy over the U.S. military intervention in Iraq spotlighted a growing international debate on the rules and institutions that should govern the use of force. To help inform the discussion at home and abroad, Brookings has launched a two-year pioneering project, Force and Legitimacy in the Evolving International System, led by Steinberg and Daalder.

Brookings scholars, together with their counterparts from Europe, China, Russia, Mexico, South Asia, and South Africa, will examine the institutional arrangements and rules governing the use of force, and formulate recommendations for revising those arrangements.

"This project is a natural outgrowth of our work on alternative foreign policy strategies for the United States," Steinberg says, "including studies on power and cooperation among nations, and on the future of arms control."

The project is supported by grants from the Carnegie Corporation of New York, the William and Flora Hewlett Foundation, the MacArthur Foundation, and the Rockefeller Brothers Fund.

The war in Iraq also raised



James Steinberg, director of Foreign Policy Studies, opens the inaugural conference of the Center on the United States and Europe

TOM WILLIAMS

critical questions about priorities and strategies to deal with the terrorist threat to the United States. Even before 9/11, Brookings scholars were in the forefront in considering homeland security. This work accelerated after the attacks and included reviews of homeland security efforts and intelligence reform. The Markle Foundation supported Steinberg in a research project focused on understanding and reducing the obstacles to information sharing across sectors and borders.

O'Hanlon, along with several Brookings colleagues, is writing a book-length study evaluating the progress on homeland security and offering recommendations for improvement. To help with this

work, the Foreign Policy Studies team was joined by visiting fellow Richard Falkenrath, former deputy homeland security advisor and deputy assistant to President Bush.

The war in Iraq has strained America's relationship with Europe, particularly with long-standing allies such as France and Germany. But other developments have also had an impact as Europe continues to modify traditional concepts of sovereignty and the nation-state in favor of economic and political union. Given the strategic importance of these changes for the United States, the Foreign Policy Studies program placed high priority throughout the year on analyzing the transatlantic relationship.

The program launched the Center on the United States and Europe (CUSE), reflecting a long-term commitment to this issue. Representing an expansion of Brookings's Center on the United States and France, CUSE comprises separate research programs that focus on France, Italy, and Turkey.

"The Center significantly broadens the scope of our work on America's relationship with its most important allies," says Philip Gordon, director of CUSE.

CUSE's inaugural conference, held at Brookings in April, featured a panel of guests from the United States and Europe, including Javier Solana of the European Union; Pascale Andreani, Euro-

China Initiative

China—a huge nation, the world's most populous. Its economy developing rapidly, its political institutions evolving more slowly. Halfway around the globe from the United States, it casts a large shadow across the world stage.

"The rise of China and its impact on the world is the most important geopolitical event of the 21st century," says Brookings Board Chairman John L. Thornton. "The U.S.-China relationship is the central relationship of the 21st century. Our two countries must understand each other with much greater depth."

So strongly does Thornton believe in the need for the two nations to understand and cooperate with each other that he pledged \$1 million a year for the next five years to fund a new Initiative on China. All four research programs joined forces to work under the direction of James B. Steinberg, vice president and director of Foreign Policy Studies. As former deputy national security advisor under President Clinton, Steinberg played a large role in U.S.-China relations.

"We need to do something different from the normal think-tank focus on U.S.-China relations," Steinberg explains. "We need to seek a greater understanding of internal issues facing China's leadership and the consequences of these issues for China, the U.S., and the world at large."

Working closely with partners in China, the initiative will develop timely, independent analysis and policy recommendations to help U.S. and Chinese leaders address key long-term challenges.

"When you ask government officials and businesspeople in the United States where to go for information and understanding about China, you get eight different answers," Thornton says. "In China, when you ask who in the West knows the most about China, they reply, 'No one.'"

"We want the answer in both cases to be 'Brookings.'"

Thornton—who has taught at Tsinghua University in Beijing and elsewhere in the provinces—says Brookings intends to develop deep ties with government officials, scholars, intellectuals, business executives, and what he calls "the new generation of Chinese leaders." While the initiative will be based at Brookings, it also will have an ongoing presence in China.

"China has an inexhaustible need for good ideas," Thornton says, "so Brookings is a good partner."

He points to what he calls the "applied research" Brookings has conducted for decades, research that helped in creating the Marshall Plan, the United Nations, and many other important post-World War II institutions.

The Initiative on China will focus on areas in which China has special needs and Brookings has,

or plans to develop, special expertise. These areas include energy security, political and economic reform, urban development—and developing better understanding between the elites and ordinary people in China and between China and the rest of the world. Brookings will also continue to focus on key issues that are the subject of ongoing research, including China's important regional and global security interests.

Underscoring Brookings's commitment to the initiative is the affiliation of highly regarded scholars with the project:

■ Jing Huang is a distinguished professor and award-winning author on

Asian and Pacific issues. He became the initiative's first full-time senior fellow in July and is an expert in Chinese military and security affairs and elite politics. Before joining Brookings, he was associate professor of political science and co-director of the Asian Studies at Utah State University.

■ Kenneth Lieberthal, a renowned Sinologist from the University of Michigan, was the National Security Council senior director for Asia under President Clinton. He is taking a sabbatical from the university to join Brookings as a visiting fellow and help shape the China initiative.

■ Economic Studies program senior fellow Shang-

Jin Wei will lend to the initiative his expertise on China's economic integration. Wei has served as an advisor to the International Monetary Fund, a faculty research fellow with the National Bureau of Economic Research, and a research fellow with Harvard University's Center for International Development.

"The addition of these experts, plus the continuing contributions of Richard Bush, director of Brookings's Center for Northeast Asian Policy Studies, provides the program with an excellent core group of eminent Sinologists and a solid base from which to launch our new and important work on China," Steinberg says. ■



The economic bustle of the new China as seen along Nanjing Road in Shanghai

pean affairs advisor to the French prime minister; and Klaus Scharioth, Germany's deputy foreign minister.

In spring 2004, the Center also published a major new study of transatlantic diplomacy concerning Iraq, "Allies at War: America, Europe, and the Crisis Over Iraq," by Gordon and Jeremy Shapiro, CUSE director of research.

Sponsors of CUSE include the German Marshall Fund of the United States, the Daimler-Chrysler Corporation, the Council for the United States and Italy, the Luso-American Foundation, and a number of individual donors.

Although most of the world's attention is focused on the Middle East, Foreign Policy Studies continues to explore other issues of long-term strategic concern as well, including the emergence of China as a political and economic force and global power.



Defense Secretary Donald Rumsfeld discusses a study of public service by Brookings senior fellow Paul Light

Brookings Chairman John L. Thornton has long taken an active interest in China's development, and he provided generous support to help launch the Brookings Initiative on China. With activities in both the United States and China, the initiative's goals are to deepen U.S. understanding of political, social, and economic issues in China, and to assist policymakers in both countries as the relationship evolves (see story, page 11). More broadly, East Asia remains a region of paramount importance for the United States. The Foreign Policy Studies program continued its commitment to analyzing critical issues in that region through the Center for Northeast Asian Policy Studies (CNAPS).

Under the leadership of Director Richard Bush, holder of the Michael H. Armacost Chair, CNAPS completed its fifth year of a program that brings mid-career professionals from countries in the region to Brookings to conduct research and network with their U.S. counterparts.

The addition of the CNAPS staff of visiting fellow Charles "Jack" Pritchard, former special envoy for negotiations with DPRK (North Korea) and senior director for Asian affairs with the National Security Council, deepened Foreign Policy Studies expertise on Japan and Korea.

The trial of oil mogul Mikhail Khodorkovsky, turmoil in Georgia, and the grinding war in Chechnya were reminders that Russia and its former empire remained important components of the global political and economic landscape.

Senior fellows Fiona Hill and Cliff Gaddy are engaged in an ongoing project that

examines both the foreign policy consequences and the internal dynamics of a Russia in transition. Hill and Gaddy are documenting the rise of Russia as an energy superpower and analyzing the implications for Russia and its partners in the international community. The two scholars are also studying poverty and emigration in Central Asia and their effects on the countries of Central Asia and on Russia—the primary destination of Central Asian émigrés.

The assassination attempt on Pakistani President Pervez Musharraf late last year, the periodic emergence and capture of al Qaeda members in Pakistan, and the violent chaos on the border between Pakistan and Afghanistan make Foreign Policy Studies senior fellow Stephen Cohen's new book, *The Idea of Pakistan*, particularly timely.

Nearly every day brings a reminder that policymakers and the public in the United States need to deepen their understanding of the complex political, social, and economic dynamics of this region. In addition to completing his manuscript, Cohen, also an expert on India, helped lead the Brookings partnership with the Observer Research Foundation, an emerging think tank in New Delhi. Brookings scholars do not merely comment on current events; they also discover and explain the newest trends and most compelling forces underlying the longer-term trajectory of U.S. foreign policy.

Lael Brainard, the New Century Chair in International Trade and Economics, directs Brookings's Poverty and Global Econ-

omy Initiative, shared between the Foreign Policy Studies and Economic Studies programs, which focuses on the risks and opportunities associated with the new global economy and on the profound challenge of poverty.

An important related project is senior fellow Susan Rice's multi-year, multidisciplinary study of the relationship among global poverty, inequality, and U.S. national security. In addition, senior fellow Ann Florini examined the increasingly important role of the supranational and transnational institutions and arrangements that are shaping global governance in the 21st century. She also is looking into the issue of transparency.

Senior fellow Roberta Cohen and nonresident senior fellow Frances Deng co-direct the Brookings-SAIS Project on Internal Displacement, which promotes national, regional, and international efforts to help people



Senator Hillary Rodham Clinton (D-N.Y.) describes how trips to Iraq and Afghanistan shaped her views on fighting terrorism



Senior fellow Richard Bush assesses the chances of halting a nuclear build-up in North Korea

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around the world who have been forced from their homes by armed conflict, internal strife, natural disasters, or other crises, but have stayed within their national borders and, therefore, often are not protected by international agreements.

Nigel Purvis, Brookings scholar on the environment, development, and global issues and a former deputy assistant secretary of state for oceans, environment, and science, worked with colleagues in Foreign Policy and Economic Studies to provide a unique perspective on global environmental issues. During the past year, he led research on the consequences of global climate change. Purvis's expertise was augmented by that of environment scholar David Sandalow, former executive vice president of the World Wildlife Fund and a former government official specializing in environmental issues (see story, page 29).

Thanks to the generous support of the John D. and Catherine T. MacArthur Foundation, the program has added a Science and Technology fellow to help bridge

the gap between the natural sciences and the policy community. The program's first Science and Technology fellow was Michael Levi, former director of the Strategic Security Project at the Federation of American Scientists, who completed a book with O'Hanlon titled *The Future of Arms Control*; the second is Michael B. d'Arcy, an atomic physicist who comes to Brookings from the National Institute of Standards and Technology.

The path-breaking work of Brookings scholars has been widely recognized by their peers. This year, *America Unbound: The Bush Revolution in Foreign Policy*, by Daalder and former senior fellow James Lindsay, won the 2003 Lionel Gelber Prize for outstanding writing on international affairs and received honorable mention for the Arthur Ross Prize, which honors books that analyze important current events.

Another book, *Corporate Warriors: The Rise of the Privatized Military Industry*, by national security fellow Peter Singer, was short-listed for the Gelber Prize. Among the notable reviews of Foreign Policy Studies work was "Destiny at 60 Degrees C," published late last year in *The Economist*, reviewing Gaddy and Hill's book *The Siberian Curse: How Communist Planners Left Russia Out in the Cold*.

In addition to the program's permanent scholars, each year a number of extraordinary scholars from around the world join the program for project-specific work. Notable additions in the past year included the following:

■ Ammar Abdulhamid, a Syrian author and political activist, came to Brookings as a guest scholar in the Islamic World project. Abdulhamid runs DarEamar, a publishing house and nongovernmental

organization in Syria that seeks to raise awareness of issues such as civil society, minority rights, and democratization.

■ Abdel Monem Said Aly, an Egyptian journalist, joined the Saban Center as a visiting fellow to write a monograph on U.S.-Egypt relations.

■ Flynt Leverett, former senior director for Middle East policy at the National Security Council, joined the Saban Center as a visiting fellow to write a monograph, due for publication in late 2004 or early 2005, on Syria since the death of Hafiz al-Asad.

■ Rizwan Zeb, a research analyst at the Institute for Regional Studies in Islamabad, Pakistan, joined Brookings as a visiting scholar to continue his work developing recommendations for resolving the India-Pakistan conflict. ■



Francis M. Deng, co-director of the Brookings-SAIS Project on Internal Displacement, reports on his visit to Darfur

THOMAS MICHAEL CORCORAN

Saban Center

“I believe that ideas can move nations to action. I wanted to bring together the best minds from the United States and the Middle East to engage in a creative dialogue, to conduct in-depth studies, and to generate policy initiatives that could improve our world,” explains entrepreneur Haim Saban, who founded the Saban Center for Middle East Policy at Brookings.

“The Saban Center was established to apply a long view and serious research to the quandaries and opportunities the United States faces in the Middle East—the threats of war, the opportunities for peacemaking, the scourge of terrorism, and the challenges of political and economic development,” says Saban, chairman of the Center’s International Advisory Council and its primary source of financial support.

Saban Center Director Martin Indyk, former U.S. ambassador to Israel and former assistant secretary of state for Near East affairs, says the year was a challenging one for his scholars.

“From proliferation of weapons of mass destruction to the war on terrorism, from Arab political reform to promoting peace between Israel and the Palestinians, from the American intervention in Iraq to persuading problematic states like Iran, Libya, and Syria to change their behavior, the Saban Center is at the cutting edge of the policy debate, applying its expertise to the immense challenges confronting the United States in this troubled region,” Indyk says.

The Saban Center’s staff members, who have both policy and academic expertise, conduct in-depth research and analysis and present innovative ideas for resolving these challenges. The Center also brings together major figures

from the region to hash out approaches to key issues.

With so much governmental, public, and news media attention focused on Iraq during the past year, it’s not surprising that the Saban Center devoted considerable resources to analyzing the war and its aftermath. Much of the analysis was done by Kenneth Pollack, director of research for the Center and a former Iraq expert at the CIA and the National Security Council.

“There is certainly much room for argument over how well the United States is handling Iraq and what we should be doing differently,” Pollack wrote in a Saban Center policy analysis paper after a trip to Iraq. Pollack frequently shares his knowledge and insights with various U.S. government agencies and the military on developing, implementing, and revising policy approaches.

Looking beyond Iraq, the most profound and urgent long-term issue confronting the United States is its relationship with the Islamic world. America must develop policies to reduce the appeal of violent religious extremism while improving its relations with Muslim states and communities.

Toward this end, Brookings established the Project on U.S. Policy Towards the Islamic World. Directed by Peter W. Singer, Brookings’s national security fellow, the project is a major research and outreach program supported by Brookings, the government of Qatar, the John D. and Catherine T. MacArthur Foundation, the Ford Foundation, the Education for Employment Foundation, and the United States Institute of Peace.

Early in 2004, the project staged the first U.S.–Islamic World Forum, to promote dialogue and build networks of cooperation between American and Muslim leaders. The conference, in Doha,

Qatar, brought together 165 political, business, academic, media, and civil society leaders from the United States and 38 Muslim countries.

Former President Clinton and Sheikh Hamad bin Khalifa Al-Thani, the emir of Qatar, were the keynote speakers. Clinton, a member of the Saban Center’s International Advisory Council, declared: “We cannot understand U.S.–Islamic relationships unless we understand the sweeping scope of the interdependent world, its enormous benefits, and its persistent inequalities and instabilities.”

The Doha conference will become an annual event. And working-group meetings will be held in other parts of the Islamic world. The Project on U.S. Policy Towards the Islamic World also organizes other meetings of high-level policymakers in Washington, hosts visiting fellows from Muslim nations, issues monographs and analysis papers, and publishes a book series through the Brookings Institution Press.

“The rise of extremism and terrorism is directly linked to deeper problems of governance, economic growth, and the security of citizens,” Singer says. “As a result, we face new actors, new challenges, and new threats in the 21st century. To deal with them, the United States has to develop new strategies—based on solid

research—that answer these challenges and are able to promote more positive interaction with the Muslim world.”

The other major source of tension in the Middle East that directly affects U.S. interests is the Israeli–Palestinian conflict. Through the generous support of S. Daniel Abraham, the Saban Center has established an ongoing, informal dialogue called “Track 2.” Participants have included current and former Israeli and Palestinian cabinet ministers, legislators, and security officials, along with officials of the U.S. State Department and the National Security Council.

One discussion focused on developing criteria to ensure the successful implementation of Prime Minister Ariel Sharon’s proposal for Israel to withdraw unilaterally from the Gaza Strip and parts of the West Bank.

At a time when no official Israeli–Palestinian exchanges are possible, the Saban Center has been able to use its standing as an honest



Martin Indyk, director of the Saban Center, led a wide-ranging examination of challenges facing the U.S. in the Middle East

broker to keep both sides talking, informally at least, laying the foundation for future reconciliation.

The Israeli–Palestinian conflict and the war in Iraq are not the only issues that the Saban Center sees as vital to its mission of creating dynamic initiatives to improve the region and the world.

Research fellow Tamara Cofman Wittes, an expert in political development, thinks that democratizing the Middle East is a national security imperative. She has begun a major research project to evaluate U.S. aid for promoting democracy in the Arab world and to explore new strategies for encouraging political and economic reform in the region.

Another major focal point in the Middle East is Iran. Visiting fellow Shaul Bakhash, a professor of history at George Mason University, provides expertise on that complex country. At Brookings, he initiated the Iran Working Group, which held a series of discussions about Iran’s foreign policy and the future of U.S.–Iran relations. Bakhash is working on a book examining Iran’s political structure and its reform movement. Ken Pollack also recently completed a book, *The Persian Puzzle: Conflict Between Iran and America*, which looks at the history of the countries’ relationship and the future of U.S. policy toward Iran.

The work of visiting fellow Flynt Leverett, former National Security Council senior director for the Middle East peace process under President Bush, is focused on states in the Middle East that have traditionally been viewed as “problematic,” such as Syria, Libya, and Iran. Leverett is writing a book on Syria’s foreign policy, the history of its relations with the United States, and the strategies he believes America should adopt to affect Syria’s behavior. ■

Global Poverty

The Poverty and Global Economy Initiative is “an incubator for ideas,” says Director Lael Brainard.

This unique initiative is multidisciplinary—what Brainard calls “a pioneering approach”—drawing expertise from Brookings scholars in areas ranging from foreign policy, economics, and governance to development, law, and environmental science. Twenty Brookings scholars, working in collaboration with experts from 10 countries, are involved in the initiative.

The goal, says Brainard, the New Century Chair in International Trade and Economics, “is to offer compelling recommendations, founded on fact-based research and sound analysis. We hope our work will materially shape the policy debate on how to reduce global poverty, lead to practical recommendations, and capitalize on the opportunities presented by globalization in the areas of trade, investment, and economic development.”

In the summer of 2004, the Poverty and Global Economy Initiative, the Aspen Institute, and Realizing Rights: The Ethical Globalization Initiative brought together more than 40 international leaders from the public, private, and nonprofit sectors for a conference titled “America’s Role in the Fight Against Global Poverty.”

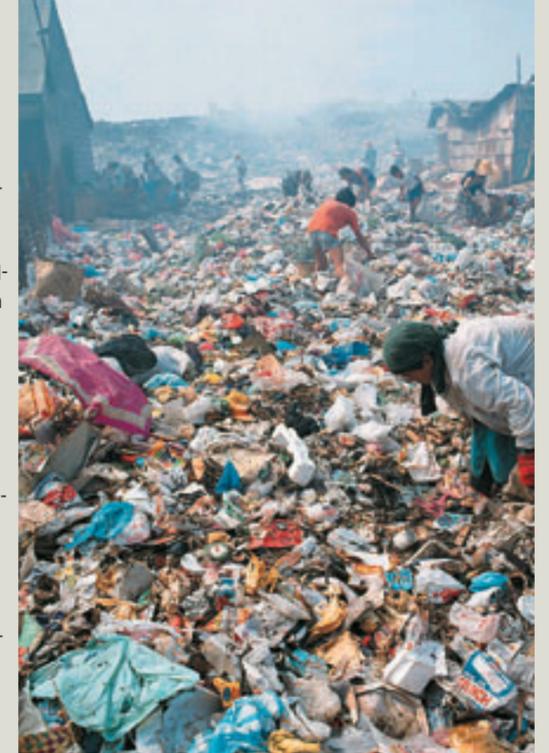
This event, and other activities of the Poverty

and Global Economy Initiative, were made possible by grants from Richard C. Blum, the initiative’s founding funder, and the William and Flora Hewlett Foundation. Other funding came from the General Electric Foundation and the Alfred P. Sloan Foundation.

At the conference, participants laid out a forward-looking strategy for the United States: increasing and restructuring foreign aid; expanding international trade through multilateral agreements while protecting workers and farmers; and directing more money, from both government and private sources, to development in

poor countries. Such joint government and private involvement in addressing the challenges of globalization is a major focus of the initiative. One example is the work of Brookings scholar Michael Kremer. In his book *Strong Medicine*, Kremer proposed a system of government incentives that would encourage pharmaceutical companies to undertake risky and expensive research to develop vaccines and medications for diseases like malaria and tuberculosis, which primarily affect people in poor countries. Under his plan, governments, international organizations, and private foundations would commit to buying and distributing the drugs.

Another initiative project, directed by visiting scholar Lex Rieffel, was aimed at strengthening and expanding the role of the Peace Corps. At the beginning of 2004, the



Residents of Manila scrounge for food at a waste dump

project found, only 7,500 Peace Corps volunteers were placed in other countries, less than half the peak strength in the 1960s. Among the ideas suggested by the project were collaborations between the Peace Corps and other international volunteer organizations in new areas of assistance, such as combating and treating HIV/AIDS.

Senior fellow Ann Florini is examining the role that corporations play in achieving—or hindering—the UN’s Millennium Development Goals in poorer countries. Approximately 1,400 companies have agreed to abide by a set of principles in the areas of human rights, environment, and labor. But critics claim that corporations are not living up to their commitments and are, instead, exploiting labor as globalization advances.

Working with John Ruggie and Jane Nelson

of the Center for Government and Business at Harvard’s Kennedy School and Ngairé Woods of Oxford University, Florini is investigating the corporate role in influencing the rules that govern globalization. She is also examining what incentives exist to encourage corporations to adopt and abide by codes of public responsibility.

The Poverty and Global Economy Initiative is also studying offshoring—the loss of American jobs to lower-wage countries.

At a standing-room-only workshop, U.S. government economists and statisticians looked at available data on offshoring and identified research gaps that make it more difficult to develop a policy agenda. The workshop followed two high-profile forums with members of the U.S. Senate on offshoring and U.S. trade policy. ■



Senior fellow Thomas Mann, flanked by visiting fellow Anthony Corrado, left, and journalist-in-residence Ron Nessen, weighs the impact of “front-loading” the presidential primaries

Governance Studies

With 2004 a presidential election year, the views of many Governance Studies scholars—experts on polling, campaigning, fund-raising, redistricting, media coverage, polarization of the electorate, and other political topics—were much in demand by both scholarly publications and the news media.

Take Thomas E. Mann, the W. Averell Harriman Chair at Brookings and one of the nation’s best-known political experts. His writings on the election appeared in publications ranging from the *Election Law Journal* to *Reader’s Digest*. He also gave nearly 1,500 television, radio, and newspaper interviews in the year leading up to the election.

Stephen Hess, who has served as an aide to presidents dating back to Dwight D. Eisenhower and is an expert on the news media’s role in politics, was not far behind with almost a thousand interviews.

By offering their knowledge and insights to a wide variety of audiences—from the academic community and policymakers to reporters and the general public—Governance Studies scholars were fulfilling the Institution’s mandate “to ensure that its research is effectively disseminated.”

Media interviews were but one part of the election year activities of the Governance Studies program.

A major undertaking of the program was the Election 2004 project. In a series of public forums and policy papers, the project examined both short- and long-term factors surrounding the presidential election process. These issues included the primaries, the post-primary period, the effects of the “permanent campaign,” how impending elections affect actions by an incumbent president and Congress, and the role of money and the new campaign finance law in the 2004 election.

The purpose of the forums presented by the project was to “foster an informed civil dialogue” among scholars, officeholders, candidates, and advocacy groups. “Our goal was to provide the public, academic community, and members of the media with accurate, balanced information to help them understand and cover the 2004 elections,” says Pietro Nivola, the new vice president and director of Governance Studies.

Other Brookings activities during the run-up to the election included a conference, directed by Mann, to kick off a multiyear project on the effects of congressional redistricting.

Coincidental with Nivola’s appointment, Governance Studies tightened its focus to the study of political institutions in the United States and other countries. The Center on Social and Economic Dynamics, and research involving economics in developing countries, were

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returned to the Economic Studies program; global governance issues moved to the Foreign Policy Studies program.

"The purpose of Governance Studies," Nivola says, "is to explain *how* and *why* policymaking institutions in the United States and abroad perform as they do, and sometimes to suggest changes that could improve that performance."

Over the years, Governance Studies research projects have examined national electoral systems, campaign finance, legislative politics, executive organization, budgetary procedures, management of public bureaucracies, the news media, jurisprudence and legal systems, forms of federalism, local administration of educational institutions, the delegation of community services to nonprofits, and the role of religious organizations.

"The aim of this body of work has been to shed light on the implications of institutional arrangements and, where feasible, to delineate reforms that could promise net benefits to society," Nivola says.

Carol Graham, who directed Governance Studies for the past two years, has returned to the Economic Studies program, where she has undertaken a research study on the economics of happiness, which measures the interaction between government decisions and citizens' well-being (see story, page 23).

Nivola's own scholarly work included a monograph titled "The Political Economy of Nuclear Energy in the United States" and two policy briefs, "Wave of the Future: Federalism and the Next Phase of Welfare Reform" (written with Isabel Sawhill and Jennifer Noyes) and "Fiscal Millstones on the Cities: Revisiting the Problem of Federal Mandates."

As a result of the departmental reorganization, the Poverty and Global Economy (PGE) Initiative, a major undertaking of the Governance Studies program, became a stand-alone project that will also draw on the work of scholars in two other programs: Foreign Policy Studies and Economic Studies. Now in its second year, the initia-



Pietro Nivola, the new director of Governance Studies, discusses the competing imperatives of wartime powers and civil liberties

tive is supported by a \$2 million grant from Brookings trustee and San Francisco investment banker Richard C. Blum.

One of the program's most important events of the past year was a presentation by PGE Initiative Director Lael Brainard and Graham of the findings in their book, *The Other War: Global Poverty and the Millennium Challenges Account*. Their appearance in New York City was sponsored by the United Nations Development Program and the Ford Foundation.

Another event that drew attention to the problem of poverty in developing countries was the BREAD conference—Bureau of Research and Economic Analysis of Development—sponsored jointly by Brookings and the Center for Global Development. The conference brought together leading economists in the development field.

"Part of the conference was open to the public," says Graham, one of the organizers. "That portion was designed to increase the awareness by the public and policymakers of the scholarly research on third-world poverty issues."

The annual Brookings Trade Forum focused on the links between trade, poverty, and inequality.

The worldwide threat of terrorism was the ominous backdrop for many of the issues studied by Brookings scholars. The Center on Social and Economic Dynamics focused on the danger that the United States might be attacked by biological weapons.

Leading the effort was senior fellow Joshua M. Epstein, who teamed up with Johns Hopkins Professor Don Burke to develop computerized models of the effects of such an attack and of various responses. Previously they had focused on a hypothetical anthrax attack. This year, they looked at what would happen if terrorists spread smallpox germs in the United States.

Epstein and Burke were invited to become part of a core team in an initiative called MIDAS—Models of Infectious Disease Agent Study—sponsored by the National Institute of General Medical Sciences (NIGMS). This team is on permanent call to provide advice and help develop responses in the event of a national emergency caused by an outbreak of infectious diseases.

"MIDAS is designed not only to help prepare us for infectious-disease crises but also to be an active part of the response," says

Mann for Political Seasons

Analysis and testimony by Thomas E. Mann, the Brookings Institution's resident expert on elections and politics, played an important role in winning congressional approval of the new campaign finance law and establishing its constitutionality in a critical Supreme Court decision.

How does Mann think the new rules worked in the first presidential election since they were enacted, given what he calls the "staggering" amount of cash raised by both George W. Bush and John F. Kerry?

"I am pretty upbeat about the positive effects of campaign finance reform," says Mann, senior fellow and holder of the W. Averell Harriman Chair. "None of the dire warnings by critics about harmful and unanticipated consequences from the law have come to pass."

The legislation prohibited political parties from raising "soft money"—contributions not subject to federal limitations on their source and size. But the parties, Mann says, adapted remarkably well by attracting record amounts of "hard money" donations.

Outside organizations,

called 527s—after a provision of the tax code under which they register—garnered a lot of attention for the ads they ran for and against Bush and Kerry. Some 527s spent significant amounts of money and, given their avowed purpose of influencing federal elections, should have been required to register as political committees and abide by the contribution limits in federal law, according to Mann.

Nonetheless, the most influential 527s—those challenging Kerry's and Bush's military records—did not particularly benefit from campaign finance loopholes. They spent relatively little money to broadcast their ads; far more people learned about their messages from intense media coverage than from seeing the ads, Mann says. In any case, he says, the 527 ad campaigns were dwarfed by the ads run by the candidates, parties, and political action committees.

"The point is not to banish or restrict political advertising," Mann adds. "It is to ensure that those working for or against federal candidates play by the same set of rules governing political contributions."

The key objectives of the campaign finance law—to

break the unhealthy nexus among large donors, political parties, and elected officials and to restore the effectiveness of a long-standing ban on corporate and union contributions in federal elections—were largely achieved, he says.

To Mann, the most surprising election development was that Kerry, after opting out of the public matching-fund program in January, raised almost as much money in campaign contributions as Bush did, rather than being outspent four-to-one as anticipated.

Remarkable unity and motivation among Democrats and an extraordinary increase in small donors, many via the Internet, were largely responsible for Democrats' achieving near parity with the Republicans, Mann says.

"The new law proved not to be the 'Democratic suicide pill' forecast by some party insiders," he concludes. "A disparity in resources between the two candidates and their parties did not determine the outcome of the 2004 election."

Campaign finance issues were by no means Mann's only focus during the race.

In partnership with Larry Bartels, a professor at Princeton's Woodrow Wilson School, Mann organized a

series of forums at Brookings that examined partisanship, the role of issues, how campaigns affect election outcomes, and voter mobilization and turnout.

A final forum, shortly after the election, analyzed how election mandates are defined and promoted, and what impact this has on politics and policy.

"We wanted to see whether we could provide some added value to the discussion of the 2004 election by bringing in scholars who have done serious research on the campaigns and elections," Mann says.

Mann also shared his views of the election in op-ed articles and media interviews—sometimes as many as 25 interviews in one day. He provided regular briefings on the campaign to the ambassadors of Britain, Canada, France, Italy, and Germany. And he took part in on-line video conferences with audiences abroad through the State Department.

What did Mann consider the major developments in the campaign?

- The increasing importance of the Internet for fund-raising and for organizing.

- The growing gulf between Democratic and Republican voters—not just in their views of the candidates and the issues but also in their

reading of supposedly objective conditions in the country.

- The primacy of foreign policy and national security in the campaign.

- The sudden collapse of Howard Dean and the speed with which Democrats rallied behind Kerry.

- The enormous amounts of money spent on TV advertising in battleground states before the party conventions.

- The continuing decline in election and public affairs coverage by network and local TV.

- The emergence of TV comedy programs as legitimate sources of information about candidates, particularly among younger voters. Mann thinks these programs offer better commentary than many of the cable news "scream" shows.

Mann says he was most concerned about how our governing institutions performed in the past four years. The parity between the parties and their increasing ideological polarization has poisoned relationships within Congress and between both ends of Pennsylvania Avenue.

"Grappling with the serious domestic and foreign policy challenges of the next several years," Mann says, "will require a much less partisan and more accommodative environment." ■



Senior fellow E.J. Dionne, Jr., and journalist Jane Eisner exchange views on national service and the responsibilities of citizenship

Jeremy M. Berg, director of NIGMS.

Epstein, Burke, and their colleagues won a \$150,000 grant from the National Institutes of Health (NIH) to create highly visual, user-friendly computer models of disease outbreaks. The models graphically depict what would happen based on the disease incubation period,

transmission rate, weather patterns, individual susceptibility, and social interactions. The models also evaluate various methods of containing the disease, such as vaccination, contact tracing, and quarantine.

"The computer models created through this initiative will help us determine the best strategies to detect, control, and prevent the

spread of disease," says Elias A. Zerhouni, NIH director.

As the year ended, Governance Studies began another exciting political project: examining how the president, senators, and House members read and respond to the mandate of the election results.

While budget deficits and the war on terrorism continue as

major agenda items, new issues constantly arise for Governance Studies scholars to analyze, including legislative initiatives, the shifting political balance of power, the increasingly sharp divisions between conservatives and liberals, and the need to adjust political institutions for the Internet age. ■

Economic Studies

We believe that the nation's fiscal situation is out of control and could do serious damage to the economy in coming decades, sapping our national strength, making it much more difficult to respond to unforeseen contingencies, and passing on an unfair burden to future generations. Our purpose is to document the enormity of the problem, to inform citizens about why budget deficits matter, to suggest the kinds of specific steps that need to be taken, and to challenge others to do the same.

That was the declaration of purpose for the Restoring Fiscal Sanity project, the major undertaking of the year by the Brookings Economic Studies program. The project both sounded a clarion warning about federal budget deficits, which could grow to \$700 billion a year within a decade, and offered three options for avoiding that tidal wave of red ink.

"One of our proposals relies primarily on spending cuts to balance the budget, one primarily on revenue increases, and a third plan includes a mix of the two but reallocates spending to improve the government's effectiveness," explains Isabel Sawhill, a Brookings vice president and director of Economic Studies. Sawhill, who holds the Cabot Family Chair, was co-editor, with senior fellow Alice Rivlin, of a book, a policy brief, and a lengthy report outlining the causes, likely effects, and possible solutions to the deficit problem.

"Good budget choices can strengthen the economy," Sawhill and Rivlin wrote. "Bad choices can weaken it."

They concluded that "not all budget deficits are harmful—indeed, recent deficits have ameliorated the recession that began in 2001." However, "large, persistent deficits weaken the economy and lower family incomes."

While Sawhill, Rivlin, and the seven other Brookings scholars who worked on the project (Henry J. Aaron, Lael Brainard, William G. Gale, Ron Haskins, Michael O'Hanlon, Peter R. Orszag, and Charles Schultze) generally favored the "better government" option, not all agreed with every aspect of the plan. Some preferred elements of the "bigger government" or "smaller government" blueprints, some endorsed tougher fiscal policy, and others supported less constrained deficit targets.

"Indeed, our disagreements on such matters reflect, in microcosm, the disagreements in the country at large," Sawhill says.

The federal budget, and the growing deficits, began to dominate the thinking and conversations of the Economic Studies scholars more than two years ago.

"We constantly wrestled with this issue," recalls Gale, deputy director

Senior fellow Alice Rivlin, left, and Isabel Sawhill, vice president and director of Economic Studies, listen to panelists at the unveiling of their report, "Restoring Fiscal Sanity"

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of the program and the Arjay and Frances Fearing Miller Chair in Federal Economic Policy.

“We realized there was a void in the public arena,” says senior fellow Robert Litan. “No one was producing a comprehensive alternative budget that was supported by serious data-based research and analysis—spin-free.”

Litan presented the case for launching the Restoring Fiscal Sanity project to Brookings President Strobe Talbott and the Brookings trustees in the spring of 2003.

Their response, in short: “Go do it.”

The project, which is partially supported by a grant from the Annie E. Casey Foundation, was designed to stimulate an informed and thoughtful national debate about the dangers of running persistent federal budget deficits, and about ways to restore fiscal balance.

Sawhill, who succeeded Litan as director when he became vice president for research and policy at the Ewing Marion Kauffman Foundation, decided that the analysis would be most useful and effective if released in January 2004, just ahead of President Bush’s State of the Union speech, the publication of the president’s FY2005 budget, and the presidential primaries.

This tight deadline meant that the scholars had less than 60 days to prepare their first drafts. “It was very ambitious to try to do this in the short time frame we had,” Sawhill says. “I admit that I didn’t know if we’d be able to pull it off.”

But they did. The project’s initial findings were submitted for comment to other experts and then to an advisory board composed of business leaders and former cabinet members from both political parties.

With their suggestions in hand, the scholars went into overdrive to revise their drafts for the final report. The 98-page document

arrived from the printer just one day before a luncheon at which it was presented to journalists from *BusinessWeek*, CBS MarketWatch, *Congressional Quarterly*, *Financial Times*, *National Journal*, *The New York Times*, National Public Radio, *The Wall Street Journal*, *The Washington Post*, and other news outlets.

The authors also presented their findings in testimony to congressional committees, discussed their conclusions and recommendations on television and in newspaper interviews, and wrote several op-ed articles.

This publicity blitz raised the awareness of policymakers, the news media, and the public about the need to confront the deficit problem and to take action to fix it. For example, *The Washington Post* and a number of other major newspapers devoted editorials to the report’s findings and recommendations.

The Brookings scholars also teamed up with eight other organizations representing a broad swath of the ideological spectrum—the Concord Coalition, the Committee for Economic Development, the Committee for a Responsible Federal Budget, the Center for Budget and Policy Priorities, the Heritage Foundation, the Progressive Policy Institute, the New America Foundation, and the Urban Institute—to sponsor an event on Capitol Hill to discuss the deficit and possible solutions.

Senators John McCain (R-Ariz.) and Joseph Lieberman (D-



Senior fellow Peter Orszag testifies before the House Committee on the Budget

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Conn.) spoke at the event, along with scholars from Brookings and the other organizations.

The Restoring Fiscal Sanity project was the first step in an ambitious, long-range Brookings undertaking to reexamine national priorities, rethink what functions the federal government should and should not perform, and reconsider how to pay for such programs.

“We have the opportunity, through our work on this program, to address our nation’s fiscal future in new and more creative

ways,” Talbott says. He cites “a combination of focus and honesty” as necessary to solve America’s fiscal problem and says that “both are found in abundance” in the Restoring Fiscal Sanity project.

Much of the data and analysis for the project was developed by the Brookings–Urban Tax Policy Center—particularly through the work of Gale and Orszag, the Joseph A. Pechman Senior Fellow in Economic Studies, on creating realistic fiscal assumptions and examining the revenue conse-

Economics of Happiness

Psychologists have long used studies of happiness to assess the state of

their patients. But could lawmakers use the data to assess the state of their nations, and even base policy decisions on the results?

An emerging social science field pairs traditional indicators—marital and economic status, for example—with the factors that affect the economic climate, including globalization and the divide between rich and poor. Researchers say happiness data could ultimately transform the way governments make decisions, with policymakers using well-being indicators to track a country’s happiness in the same way they now monitor economic conditions.

Several years ago, Carol Graham, a senior fellow at Brookings and the director of the Center on Social and Economic Dynamics, was conducting research in Peru on the effects of globalization on income distribution when a survey turned up unexpected results: More than half the people who had made significant income gains over 10 years were frustrated, while the poorest people in the sample were largely satisfied.

To try to understand the results, Graham turned to literature on happiness, and in 2002 she wrote *Happiness & Hardship: Opportunity and Insecurity in New Market Economies*. The book charts the relationship between “subjective well-being”—a term coined by psychologist Ed Diener—

and the political sustainability of market-oriented economic growth in 17 Latin American countries and Russia.

Using happiness surveys and economic variables to measure how people in those countries perceive their lives and how those perceptions are affected by globalization, Graham and colleague Stefano Pettinato found that when individuals assess their own well-being, relative income differences are often as important as absolute income gains.

“There’s a big gap,” Graham says, “between assessments by technical economists, who evaluate the aggregate benefits of globalization on poverty and inequality and generally give positive appraisals, and the very negative assessments by the average laymen in poor countries, who tend to focus on micro-level trends and on the differences between the winners and losers.”

Surveys of well-being provide a tool that may help bridge this analytical and conceptual divide, Graham says. In the Peru survey, almost half of the people who had earned the most money over 10 years described their current situation as negative or very negative compared with the past. Graham calls these respondents “frustrated achievers.”

Another group had earned little or no money during the same period but said their situation was very positive. Graham, who labels these respondents “Pollyannas,” says members of this group are usually “quite rural people, for whom

income change doesn’t matter as much as other factors, such as harvest yields.”

“Frustrated achievers,” far from being the poorest in the sample, fall in the middle income levels and tend to be more urban, more aware of their peers’ lifestyles, and more subject to income volatility. They also have a higher fear of unemployment and are more concerned about relative income differences, which causes them, says Graham, to “place themselves lower on a notional economic ladder.”

That tendency translates to assumptions that are relevant to decision-makers. Frustrated achievers, she says, are more likely to support taxing the incomes of the rich and to have lower prospects of upward mobility; they also tend to be less satisfied with the market economy and are less likely to prefer democracy to any other form of government.

At a June 2004 briefing at Brookings on the economics of happiness, Graham joined a panel of experts to discuss the relevance of happiness research to debates on fiscal and macroeconomic policy, social welfare, the international economy, and foreign aid.

“Happiness economics,” says Andrew Oswald, an economics professor at the University of Warwick, “can actually put a dollar value on tangible and intangible forces.... So, for example, we now have dollar values for the...happiness or unhappiness from aircraft noise, fear of crime, unemployment, and inflation.”



Senior fellow Carol Graham studies the relationship between feelings of well-being and economic conditions

FORREST MACCORMACK

The panelists—who also included Diener, a psychology professor at the University of Illinois; Jeffrey Sachs, director of Columbia University’s Earth Institute; and Gregg Easterbrook, author of *The Progress Paradox: How Life Gets Better While People Feel Worse*—agreed that happiness data can provide a fuller picture of the impact of economic changes and policy decisions on the public.

For Graham, understanding how people judge their financial status—and its relation to that of their peers—is crucial in an environment where national

economies are increasingly interdependent.

“Research on happiness,” she says, “can help us explain unsolved policy puzzles...such as the impact of inequality on individual well-being, and the very contentious debate on the effects of globalization on poverty and inequality worldwide. And by discovering unexpected public frustration in some contexts, happiness surveys may ultimately provide policymakers with predictive tools or, at the least, better insights into potentially unstable social situations.” ■

quences of different tax proposals: for example, modifying or eliminating the Alternative Minimum Tax, making recent tax cuts permanent, and adopting a value-added tax.

The Tax Policy Center, funded at Brookings by the Lumina Foundation for Education, the Open Society Institute, and Well-spring Advisors LLC, is frequently mentioned as a source for information on various tax proposals and their consequences. The Center has developed a website calculator that can estimate the effects of those proposals.

In the longer term, one of the major trends affecting the federal budget is the growing number of older Americans. The oldest baby boomers turn 60 in just two years, raising urgent questions about whether Social Security and other government and private pensions are saving and investing enough to provide comfortable incomes for retirees.

The problem is exacerbated by the fact that Americans are retiring younger and living longer.

A number of Brookings scholars—including Barry Bosworth, the Robert V. Roosa Chair; Gary Burtless, the John C. and Nancy D. Whitehead Chair; Henry Aaron, the Bruce and Virginia MacLaury Chair; and Orszag—analyzed this challenge and offered ideas for dealing with it.

In a book titled *Saving Social Security*, Orszag and Peter Diamond of the Massachusetts Institute of Technology proposed changes in benefits and payroll taxes that would take into account longer life expectancies and the fact that earlier generations of retirees received more from the system than they contributed during their working years. These changes, the authors wrote, would eliminate the anticipated long-term deficit in the Social Security fund and put it on



Senior fellows Henry Aaron, left, Lael Brainard, and Charles Schultze offer ways to cut the federal budget

TOM WILLIAMS

a sound financial footing.

Coping With Methuselah, edited by Aaron and William Schwartz of the University of Southern California, examined how revolutionary advances in medicine are likely to slow or stop the aging process, extend life, cure illnesses, affect the government's finances, and raise thorny ethical issues for society. This book was funded by a grant from the Robert Wood Johnson Foundation.

In dealing with another government social program, Congress became hopelessly deadlocked when trying to extend and improve welfare reform. Nevertheless, the Welfare Reform and Beyond project continued to produce important research and recommendations on the topic, which policymakers praised and used in formulating legislative proposals. This research is funded by the Annie E. Casey, David and Lucile Packard, Charles Stewart Mott, Ford, John D. and Catherine T. MacArthur, and Harry

and Jeanette Weinberg foundations and by the Foundation for Child Development.

Sawhill and Haskins, the project's co-directors, produced a policy paper pointing out the need to improve Head Start. Michael Castle (R-Del.), chairman of the House Subcommittee on Education Reform, said their paper helped shape his bill to improve the preschool program.

Sawhill and Haskins also produced new data and analysis demonstrating the powerful effects of work and marriage on helping people to escape poverty.

In related analysis, Burtless concluded that single mothers are more likely to work now, since the implementation of welfare reform. Contrary to expectations, most of these single mothers appear to have maintained their employment gains through the recession that began in 2001. Additionally, child poverty rates rose far less than in previous economic downturns.

Brookings scholars also zeroed in on the economic challenges posed by accelerating globalization. The Poverty and Global Economy Initiative, directed by Lael Brainard, is funded primarily by Richard C. Blum and the William and Flora Hewlett Foundation, with additional funding from the General Electric Foundation and the Alfred P. Sloan Foundation. The initiative develops practical ideas for capitalizing on the opportunities that globalization offers in trade, foreign investment, and economic development.

Brainard, the New Century Chair in International Trade and Economics, and Susan Collins are leading a project with other Brookings scholars, including Litan and Schultze, to study offshoring—exporting service jobs formerly performed in the United States to countries with lower labor costs. The project is exploring the economic consequences of this new phenomenon, which is

not only changing the size of the global economic pie but also redistributing pieces of that pie within and between countries.

“The objective is to set a policy agenda to make America feel more secure in the international economic environment while giving India, China, and other developing countries the chance to benefit from the international trading system,” Brainard says.

“Bob Litan and I published a policy brief aimed at helping America to keep its competitive edge through education, tax, and research-and-development policies, while addressing worker displacement through wage insurance and trade adjustment assistance.”

Charles Schultze produced another policy brief, “Offshoring,

Import Competition, and the Job-less Recovery,” which concluded that a surprisingly sharp increase in productivity by American workers, rather than a loss of jobs to workers overseas, was the real cause of the slow pace of job creation after the most recent economic recession.

“A careful look at U.S. import data—especially for service imports, where most offshoring growth occurred—indicates that while the total number of jobs affected by offshoring had increased, that number was still small relative to millions of jobs affected by the productivity surprise,” Schultze wrote.

The offshoring project eventually will include a conference at Brookings, an edited volume of essays, a short monograph aimed at the general public, and a series of

roundtable discussions that bring together policymakers, private-sector representatives, and researchers to refine a set of proposals regarding taxes, health care, research and development, education and training in the United States and abroad, trade policy, consumer privacy, development, and cyber security.

The economic benefits of globalization have been slow to reach some developing countries.

In a book titled *The Other War: Global Poverty and the Millennium Challenge Account*, Brainard, Carol Graham, and others examined development assistance issues, particularly the Bush administration's program designed to reward democratization and free markets and discourage corruption in developing nations.

In collaboration with the Center for Strategic and International Studies, Brainard plans to conduct additional research on ways to make U.S. foreign aid a more effective instrument of national policy. A high-level bipartisan commission will be created to study the strategic goals of aid policy and evaluate how well the current aid program supports those objectives.

Looking back at this crowded agenda and ahead to new issues, Sawhill cites two big challenges facing Economic Studies:

- Making sure that the program is working on the most important topics with the potential to influence policy.
- Preserving the program's independence in an increasingly partisan environment. ■



Senior fellows Ron Haskins, left, and William Gale discuss the implications of soaring deficits

TOM WILLIAMS



Bruce Katz, vice president and director of the Metropolitan Policy program, speaks in Williamsport, Pennsylvania, on ways to revitalize that state's economy

Metropolitan Policy

The issues closest to home often have the greatest impact on Americans' lives: traffic, sprawl, high housing prices, low-paying jobs, lackluster downtowns, and declining older suburbs.

In recognition of that fact, the Brookings Center on Urban and Metropolitan Policy was elevated this year to the Metropolitan Policy program. It is now one of the four broad policy study programs at Brookings—along with Economic Studies, Foreign Policy Studies, and Governance Studies—and the first new program created since 1948.

“This change is a powerful affirmation of the importance of metropolitan issues to the domestic and global challenges that Brookings seeks to address through its research, analysis, and public education,” says Bruce Katz, who had directed the Center and is now vice president and director of the program. “We look forward to continuing our comprehensive approach to urban studies with even greater vigor and impact, and with the permanent backing of the larger institution.”

Katz also credits the Fannie Mae Foundation, an early and steadfast supporter, for the Metropolitan Policy program's growth and success since the Center's creation eight years ago.

The rust-belt state of Pennsylvania served as a major focus for Katz and his staff during the past year. They analyzed the problems of older declining communities and proposed ways to improve the state's economy. The project, supported by the Heinz Endowments and the William Penn Foundation, culminated in a report titled “Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania.”

“The report contends that Pennsylvania's economic future depends on revitalizing its demographic mix and curbing some of the nation's most radical patterns of sprawl and abandonment,” says Katz, who holds the Adeline M. and Alfred I. Johnson Chair. “It concludes that these trends are not inevitable and can be reshaped if the state embraces a dynamic new vision of economic competitiveness, which also includes reviving its older cities and towns.”

Twenty newspapers across Pennsylvania wrote about the report when it was released. More than 100 follow-up stories covered such topics as state spending strategies and practices, the “brain drain” from Pennsylvania, brownfield environmental cleanups, local government consolidation, and Governor Edward Rendell's efforts to pass economic stimulus legislation.

Like most of the Metropolitan Policy program's work, the Pennsyl-

MARK NANCE

vania report was intended to be a blueprint for action, not a scholarly thesis. As the scholars hoped, the report had a galvanizing effect on state officials.

Redell proposed an \$800 million bond referendum to expand open-space preservation and revitalize older communities. State agencies began revising infrastructure and economic development programs to create more balanced growth patterns and level the playing field between older and newer communities. Leaders in the Pennsylvania Legislature signaled their intention to appoint a commission to identify reforms that deserve legislative attention.

Key constituencies in the state, including 10,000 Friends of Pennsylvania (an alliance of organizations and individuals that was Brookings's principal partner in the project) and a network of regional business groups, are using the report to build broader coalitions that cross jurisdictional lines.

The program's other major focus was the Transportation Reform Series, launched in 2003 and hitting high gear in 2004 with support from the Ford, Joyce, John D. and Catherine T. MacArthur, Charles Stewart Mott, and McKnight foundations. It provided recommendations for establishing the proper federal role in national transportation policy, financing transportation projects, expanding transit services, and reducing traffic congestion.

The transportation series had an immediate impact at the federal and state levels. The U.S. Congress incorporated Brookings's proposals—on such topics as transportation needs of the elderly, low-income car ownership, and transit reforms—into federal legislation. Several Brookings scholars who worked on the series, including Anthony Downs, Margy Waller, and Robert Puentes, testified

before congressional committees.

The series also targeted issues facing specific state, metropolitan, and local governments. For instance, a report titled "Slanted Pavement" examined how using fuel tax revenue in Ohio for highway construction and repairs shortchanges cities and suburbs in favor of rural areas. "Slanted Pavement" prompted *The Cincinnati Enquirer* to publish an editorial urging the state government to revise the distribution formula, and the report is being used by interest groups to lobby for such a change.

Another report, "Washington's Metro: Deficits by Design," found that Washington, D.C., has the only subway system in America without a dedicated source of funding, relying solely on fare payers and annual local government appropriations to maintain and expand the system.

That was not the only project that focused on Brookings's hometown. Brookings Greater Washington, directed by senior fellow Alice Rivlin, studied neighborhood revitalization, affordable housing, poverty in the central city, primary health care, and infrastructure maintenance.

"These activities are contributing to better government at the local level, while demonstrating that a good think tank can also be a good neighbor," Rivlin says.

For her work on such projects, as well as for her long service in senior federal and city economic positions, Rivlin received the Lifetime Achievement Award from the D.C. Chamber of Commerce this year.

"Listening to Dr. Rivlin speak is like being in an advanced college classroom where a top professor offers clear and intriguing views on a variety of complex subjects," said Chamber of Commerce President Barbara Lang.

The Metropolitan Policy pro-

gram released seven analyses of the 2000 Census data, which yielded some startling findings: a steep decline of concentrated poverty in central cities during the 1990s, growing suburbanization of immigrants during the same period, sprawl-producing housing construction in traditionally slow-growth areas, and a continuing brain drain from Northeastern and Rust Belt metropolitan areas to warmer, faster-growing regions.

In addition to these national studies, the program released the first batch of its local analyses of the 2000 Census. The databooks, covering 23 locales, assembled key information in an accessible format, with tables, charts, and maps augmenting the text.

The program is working closely with corporate, civic, and community leaders in Baltimore, Chicago, Kansas City, Miami, and Minneapolis/St. Paul to advance a variety of locally selected reforms based on the census analyses.

Katz says the Metropolitan Policy program is making considerable progress in finding ways to increase the incomes and assets of low-income working families, and to ensure that these households have access to quality employment and educational opportunities.

"A central feature has been our work to demonstrate the distribution and impact of the Earned Income Tax Credit [EITC], perhaps the most powerful anti-poverty program in the federal arsenal," Katz says. A study published as part of this work analyzes how the EITC is distributed among cities, suburbs, and rural areas in all 50 states.

The Metropolitan Policy program also is working to enhance public and private investment in low-income neighborhoods through its Urban Markets Initiative, launched during the past year

with support from Living Cities, a consortium of 17 major financial, philanthropic, and public-sector organizations.

Because the issues confronting cities, towns, and suburbs are not unique to the United States, the program extended its work internationally. A joint project with the London School of Economics is examining the role of major demographic and market forces in shaping the modern American and British metropolis. The aim is to identify government policies that help communities in both countries address economic, social, and development challenges.

Katz travels regularly to Britain to meet with British scholars, philanthropists, and government officials to discuss mutual concerns such as revitalizing distressed housing, rejuvenating older industrial cities, and increasing the assets of the working poor.

Along with British Chancellor of the Exchequer Gordon Brown, Katz was invited to participate in the 100th-anniversary celebration of the Joseph Rowntree Foundation, one of the largest independent social policy research and development charities in Britain.

At the event, Katz released the report "Neighborhoods of Choice and Connection," which showed how community leaders and policymakers on both sides of the Atlantic can embrace a new neighborhood design that will attract residents of all economic classes and provide access to high-quality education, job training, and other routes to economic opportunity.

Katz's speech topic at the Rowntree anniversary assembly was "What the U.K. can learn from U.S. neighborhood policy." Few people know the subject better than Katz and his colleagues at Brookings. ■

Environment and Energy

To help policy-makers shape innovative solutions to climate change and other environmental issues, Brookings this year inaugurated its Environment and Energy project. The project will search for ways to improve environmental policies that reflect political, economic, and global concerns. In his strategic plan, Brookings President Strobe Talbott identified environmental issues as one of the most important research areas for the Institution.

The project has received seed funding from Brookings trustees Stephen M. Wolf and Louis W. Cabot, and Brookings is actively seeking core support from other sources. The project is working closely with valued partners, including the Pew Center on Global Climate Change, the National Commission on Energy Policy, and the World Resources Institute.

During the next year, the project will focus on four areas: climate change and energy security; oceans governance; tax policy and the environment; and poverty and the environment.

"We need enduring solutions to the challenging environmental problems facing the world," says senior fellow Nigel Purvis, who co-directs the project with Brookings environment scholar David Sandalow. "Our objective is to craft practical and cost-effective solutions that the

United States can pursue at home and abroad."

"Brookings's foreign policy and economics expertise, its convening power, its reputation for rigorous and credible research—these are powerful tools for helping shape sound and practical environmental policies," Sandalow says.

For its inaugural effort, the project tackled one of the toughest environmental issues facing the world today: climate change.

While many people across the political spectrum readily acknowledge the problem of global warming, there's little agreement on a solution. Environmentalists and industry leaders have widely varying views, and policymakers are caught in between.

To help close that gap, the project organized and hosted "U.S. Climate Policy: Towards a Sensible Center" in June. The two-day conference drew the largest crowd of any Brookings event this year—both in person and on-line, via a live webcast—and featured an all-star lineup of science, industry, and government representatives from the United States and abroad. Panelists included Secretary of Energy Spencer Abraham, Chairman of the White House's Council on Environmental Quality James L. Connaughton, Senators John McCain (R-Ariz.) and Joseph Lieberman (D-Conn.), former CIA Director R. James Woolsey, World Bank President James Wolfensohn, British Energy Minister Stephen Timms, Exelon Corporation

Chairman and CEO John Rowe, *Science* magazine Editor-in-Chief Donald Kennedy, and National Wildlife Federation President and CEO Larry Schweiger.

Just after the conference, Sandalow wrote a *New York Times* op-ed piece on global warming with Stuart Eizenstat, chief negotiator for the Clinton administration at the Kyoto conference.

The Environment and Energy project also spearheaded three other events. The "Global Challenges for U.S. Energy Policy: Energy Geopolitics, Global Environment, and Domestic Policy Options" conference gathered national political leaders, business executives, and foreign policy experts to discuss how clean-energy technologies and energy efficiency could strengthen the U.S. economy, help protect the environment, and enhance U.S. security. At the "Transatlantic Dialogue on Global Climate Change" conference, Brookings welcomed more than 50 American and European leaders to identify areas of agreement for future transatlantic cooperation on climate policy. And in April the project held a forum on the Law of the Sea treaty, with a keynote address by Senator Richard G. Lugar (R-Ind.).

That event was an example of the project's focus on issues related to oceans governance. Sandalow made the case for the Law of the Sea treaty in a policy brief, "Law of the Sea Convention: Should the U.S. Join?"

According to Sandalow, American approval of the treaty "would help protect U.S. national security, advance U.S. economic interests, and protect the marine environment." The project is taking an interdisciplinary approach to its research in order to take into account the complex and interdependent web between nature and government. The project will draw on the expertise of Economic Studies scholars Warwick J. McKibbin and Peter J. Wilcoxon, authors of *Climate Change Policy After Kyoto: Blueprint for a Realistic Approach*. Purvis has teamed with Brookings senior fellow Lael Brainard to look at ways to make third-world economic development environmentally sound. Sandalow will team with Economic Studies experts and others to examine how to redirect agricultural subsidies so that they promote environmentally friendly biofuels.



At the Russell Fiord Wilderness in Alaska, ice falls from Hubbard Glacier

MICHAEL MELFORD/GETTY IMAGES

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Sandalow is working with Brookings Economic Studies senior fellows Peter R. Orszag and William G. Gale on the environmental consequences of tax policy. Purvis has partnered with McKibbin and Wilcoxon to model India's energy sector.

Purvis will spend the next year writing a book about U.S. climate-change diplomacy and pursuing further research on energy security. Sandalow will write on clean energy and on issues relating to the governance of the world's oceans, including the impact of new technologies on marine conservation.

The task could not be more important. As Talbott has said: "Because of humankind's mastery of technology, we now have the capacity to destroy ourselves. We can do so today, and quickly, in a thermonuclear war...or we can do so tomorrow, more slowly but no less completely, through the ruination of our environment." ■

Brookings Institution Press

It was a banner season for the Brookings Institution Press, measured by the number, quality, and relevance of books published, as well as by the number of awards earned by titles that appeared during the previous year.

The more than 50 books published in 2004 covered a wide range of topics, including international trouble spots, President Bush's foreign policy, and the role of religion in American life.

Pakistan and India—both hugely populous, both armed with nuclear weapons, both emerging as strategic players on the 21st-century world stage—were the subjects of two critically acclaimed Brookings books.

In *The Idea of Pakistan*, Foreign Policy Studies scholar Stephen Cohen offered a panoramic portrait of that complex country—from former British colony and homeland for India's Muslims to military-dominated state plagued by political chaos, sectarian violence, uneven economic growth, and several nuclear crises with its larger neighbor and rival, India.

Cohen explored whether Pakistan can fulfill its promise and join the community of nations as a functioning partner or whether it will dissolve into a failed state, perhaps dominated by Islamic extremists.

A review in *Foreign Affairs* described the book as an "authoritative work of broad scope and meticulous research which will surely become required reading on Pakistan." The reviewer, Pervez Hoodbhoy, a nuclear physicist in Pakistan, added, "Cohen's facts are indisputable, his logic cold and clear..."

Former U.S. Ambassador to India Thomas R. Pickering called Cohen's book "a must read" that "brings together the key threads, analyzes succinctly the challenges, and makes sensible and workable

proposals for U.S. policy."

Robert L. Faherty, vice president and director of the Press, says Pickering's praise perfectly describes the kinds of books that Brookings seeks to publish.

Brookings President Strobe Talbott published *Engaging India: Diplomacy, Democracy, and the Bomb*, a revealing account of the intensive discussions that the United States conducted with India and Pakistan during the two and a half years after the two countries detonated nuclear devices in May 1998.

As President Clinton's point man in the high-stakes talks, Talbott was able to reconstruct in rich detail one of the most intriguing and consequential diplomatic dramas of our time: Talbott's mission was nothing less than persuading the two countries not to escalate their rivalry into a nuclear exchange.

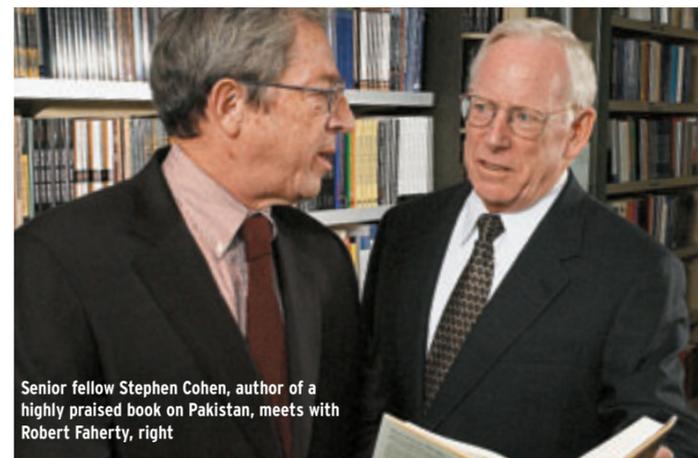
Talbott described his extensive talks with Indian Minister of External Affairs Jaswant Singh, in which they not only grappled with the urgent issues of arms control and nonproliferation but also discussed their broader visions of U.S.-India relations and the potential for economic and strategic cooperation between their countries.

A *Financial Times* review called the volume "an admirably lucid and candid memoir...an excellent book." The reviewer, Sunil Khilnani, director of South Asia studies at the School of Advanced International Studies at Johns Hopkins University in Washington, said that while Talbott's effort to resolve the India-Pakistan standoff seems as if it took place in a distant era of diplomacy, "its lessons resonate powerfully into the present."

Less than a month after its publication in India, Talbott's book had risen to the number-two spot on that country's nonfiction best-seller list. The list, compiled by the Bahri Brothers bookstore chain, appeared

in the daily newspaper *Asian Age*.

Among other books published by Brookings were four in a series of Pew Forum Dialogues on Religion and Public Life. These volumes, edited by senior fellow E.J. Dionne Jr., Jean Bethke Elshtain, and Kayla Drogosz, brought together the voices of scholars,



journalists, and policy leaders who spoke not only from their knowledge of important public-policy issues but also from a set of moral concerns, often shaped by their religious commitments.

Three of these books dealt with welfare reform and poverty, economics and justice, and U.S. foreign policy; the fourth looked more broadly at the place of religion in American politics. It included a debate between former New York Governor Mario Cuomo and Indiana Congressman Mark Souder, who discussed how their faith-based convictions have shaped their careers as public servants. Their debate served as a basis for short essays from dozens of influential voices in American intellectual and political life.

Reviewing the book in *The New York Times*, Peter Steinfels referred to the "star-studded list" of contributors and applauded the "nearly endless buffet of reflec-

tions" that "bristled with insights."

Among the Brookings books receiving awards was *America Unbound: The Bush Revolution in Foreign Policy*, by senior fellow Ivo H. Daalder and James M. Lindsay, which won the Lionel Gelber Prize for the best book on international relations. The Gelber

jury called the book "an incisive examination of U.S. foreign policy under President George W. Bush. Anyone who seeks to understand America's role in the world and the shape of the new global order will find this book invaluable and compelling."

America Unbound also received honorable mention for the Arthur Ross Award, awarded annually by the Council on Foreign Relations. *ForeWord* magazine, which reviews books from independent and academic publishers, gave the volume its award for best political science book. And the *Economist* magazine named *America Unbound* one of the outstanding books published in 2003.

Three Brookings books were cited by the American Political Science Association (APSA). Senior fellow Sarah Binder's *Stalemate: Causes and Consequences of Legislative Gridlock* received the Richard Fenno Award for "a work

that is both theoretically and empirically strong" in finding "answers to previously unexplored questions about the nature of politics." The Urban Politics Award was given to *Mega-Projects: The Changing Politics of Urban Public Investment*, which the Press co-published with the Lincoln Institute of Land Policy. And the Leon Epstein Award went to *A Voice for Nonprofits*, by Jeffrey M. Berry. This award is given to a book "that has made an outstanding contribution to research and scholarship on political organizations and parties."

In addition, national security fellow Peter W. Singer won the APSA's Gladys M. Kammerer Award for *Corporate Warriors: The Rise of the Privatized Corporate Military Industry*, published by Cornell University Press.

The National Press Club presented its Arthur Rowse Award for the best book of press criticism to senior fellow Stephen Hess and Marvin Kalb for *The Media and the War on Terrorism*, which the Press co-published with Harvard University's Shorenstein Center on the Press, Politics, and Public Policy.

Choice magazine, published by the American Library Association, named *Shrewd Sanctions: Statecraft and State Sponsors of Terrorism*, by Meghan L. O'Sullivan, as one of the outstanding academic books of the year. *ForeWord* gave its award for best book on business and economics to *May the Best Team Win: Baseball Economics and Public Policy*, by Andrew Zimbalist.

"This was an unusually large number of awards for a publisher of public-policy books," Faherty says. "They reflect the Press's continued commitment to publishing quality books that address an array of important policy issues and concerns." ■

Executive Education

The Brookings Center for Executive Education (BCEE) created a timely special program, "Inside Washington: The New Political Landscape," to prepare executives for possible changes in the White House, Executive Branch departments, and Congress after the 2004 elections.

"This program is intended to help government and corporate executives to understand how these changes will affect national policy-making and their organizations," says William M. Goodwin, senior director of BCEE.

For almost half a century, BCEE has been providing programs which offer executives the realistic, practical public-policy and leadership education that is relevant to their professional goals.

"Even as new executive education providers have emerged in the past decade, executives continue to seek learning opportunities at BCEE because they expect—and receive—programs that give them valuable knowledge and insight to current policy issues," Goodwin explains.

"Our programs also broaden the outlook of executives, thus enhancing their decision-making skills."

BCEE's access to experts—including government officials, members of Congress, politicians, lobbyists, and journalists—and to ven-

ues such as Capitol Hill, the Federal Reserve, the Supreme Court, and foreign embassies results in an enriching and unparalleled learning experience for participants.

"And the Brookings Institution's reputation ensures an independent and balanced range of viewpoints," Goodwin says.

The variety of program offerings, from leadership and policy issues to customized programs, is designed to meet the specific needs of individuals and organizations.

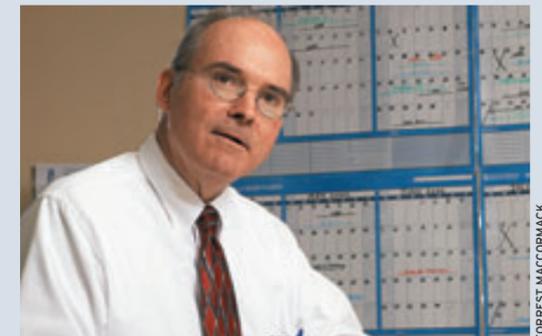
Brookings scholars such as Thomas E. Mann, Michael O'Hanlon, Lael Brainard, Robert Litan, and Paul Light are frequent speakers at BCEE programs. But they are not the only headliners. Speakers at recent programs included former Secretary of Defense William Perry; former Secretary of State Madeleine Albright; former White House spokesman Michael McCurry; Supreme Court Justice Clarence Thomas; former Congressman Lee Hamilton, co-chairman of the 9/11 investigative commission; and Amtrak President David Gunn.

Following the success of programs in the past year for such organizations as the Association of International Educators, the American Council of Engineering Companies, and the Credit Union Executives Society, BCEE plans to continue developing joint pro-

grams with other leading associations to expand its reach and impact.

Major programs developed in the past year included:

"Defense Leadership and Management Program" (DLAMP): BCEE received a multiyear contract from the Defense



BCEE head William Goodwin

Department to design and implement a leadership course for civilian executives as part of the DLAMP program. The Pentagon established the program to develop a new generation of executives to fill the roles of current leaders who will retire in large numbers in the coming decade. The program has 1,300 active participants and expects to admit an additional 300 candidates each year.

BCEE's course for DLAMP is modeled after its hallmark program Executive Leadership in a Changing Environment. One participant in the inaugural course described DLAMP as "the best single week of training I've experienced."

Expanded Outreach to Embassies: Last spring, BCEE offered its first "Inside Washington" program to staff mem-

bers of foreign embassies in the Washington area. The highly successful program drew participants from 11 nations to Brookings.

The program was repeated for new embassy personnel at the request of past participants. BCEE also has developed customized programs at the request of a number of embassies.

"Economics Institute for Judges": This flagship course of the Judicial Education Program is sponsored by the AEI-Brookings Joint Center for Regulatory Studies and organized by BCEE. The two-week program teaches state judges basic concepts in economics, finance, accounting, statistics, and scientific methodology to help them deal with complex cases.

More than 260 judges took part last year. In the coming year, BCEE expects to organize four more judicial programs, including a symposium on punitive damages.

In one of last year's sessions, the judges dined at the Supreme Court, where they heard remarks from Justice Antonin Scalia and former Solicitor General Theodore Olson. ■



Kofi Annan, his wife Nane Annan, center, and Linda Steckley, Brookings's vice president for development, chat at the Brookings trustees dinner at the United Nations.

Support for Brookings

“Everyone knows that Brookings is the very best prototype of influential Washington think tanks”

High praise, especially considering the source: United Nations Secretary-General Kofi Annan, who was speaking to the Brookings Board of Trustees and their guests at UN Headquarters in New York City.

In the first-ever trustees meeting outside Washington, Annan congratulated Brookings “on the priority you have given to international issues and to opening up your Institution to people and ideas from outside the United States.”

Speaking in the UN Delegates Dining Room, Annan lauded Brookings’s “conscious effort to broaden your agenda and to put your skills at the service of the global community.” He cited, for example, work on global poverty reduction and internally displaced persons.

These comments by a UN secretary-general in the setting of the United Nations symbolically underscored the fact that Brookings research and analysis now affect policy decisions around the world.

Trustees and friends of the Institution were instrumental in helping Brookings broaden its international scope.

Brookings Board Chairman John L. Thornton pledged \$1 million a year for five years to fund a new Initiative on China. With offices in Washington and Beijing, the initiative will conduct analysis and make recommendations to leaders in both countries for meeting policy challenges in the years ahead (see story, page 11).

At their New York meeting, the trustees heard from Mark Malloch Brown, head of the UN Development Program, who discussed the dire straits of tens of millions of poor people who live in developing countries. Speaking at a reception in the UN’s West Terrace, Brown said the Millennium Challenge Account, established by President Bush, is “an extremely important strand of development” that rewards countries striving toward democracy and free markets.

The trustees mingled with high-ranking diplomats, including John D. Negroponte, then U.S. representative to the United Nations and subsequently U.S. ambassador to Iraq; two former UN ambassadors, Richard C. Holbrooke and Donald F. McHenry (now an honorary Brookings trustee); the UN representatives from China, Egypt, and Japan; and Germany’s ambassador to the United States.

FIRST-EVER BROOKINGS STUDY TOUR

In September, Brookings President Strobe Talbott led Brookings’s first-ever study tour, to Russia and Estonia. Eighteen travelers, including

DAVID SCULL

trustees, Council members, and other friends of the Institution, signed up for the 10-day trip. They arrived in Moscow a week after the Beslan school massacre and just as President Vladimir Putin seized more centralized power.

On the study tour, most of the exchanges with government officials, U.S. embassy representatives, and members of the Russian news media focused on the Beslan slaughter and Putin's power grab. Brookings Russia specialists Fiona Hill and James B. Steinberg, vice president and director of the Foreign Policy Studies program, who were in Moscow on other business, joined the tour and added their expertise to the crash course on modern-day Russia. Hill had been present at a three-hour meeting with Putin just before the

group's arrival and described it to the tour members.

The group heard the media's view of government press policies when it participated in a nationally televised discussion with representatives of Moscow news organizations. The Russian panelists felt that they had been misled by the government about the Beslan hostage crisis. They expressed concern that Russia no longer has an independent national television network and worried that government censorship could be applied to newspapers, magazines, and the Internet.

Later, members of the group assembled in a Kremlin conference room for a briefing by Russian national security advisor Igor Ivanov. "We were not ready" for what happened at Beslan, he acknowledged. He placed much of



Trustee Robert McNamara at a special Brookings screening of "The Fog of War," a documentary about the former defense secretary

TOM WILLIAMS

the blame on provincial political leaders. Ivanov's comments came immediately after Putin had taken over appointment of provincial governors, who previously had been elected.

"We need a more unified

framework to confront terrorism," Ivanov said. "We were found wanting in this respect." He also conceded that the Russian government had not been completely forthcoming about the incident with the public or the press.

Founder's Society

Many forward-thinking donors, like Brookings trustees Charles W. Robinson and Ralph S. Saul, have made long-term commitments to the Brookings Institution by including a provision for the Institution in their estate plans.

Robinson and Saul have designated Brookings as the beneficiary of irrevocable charitable remainder trusts, which distinguishes them as members of the Founder's Society. The lasting legacy they provide will help ensure that Brookings remains a strong and objective voice in future policy debates.

"I've been associated with the Brookings Institution for over a quarter century," Robinson says. "Today, more than ever, I am convinced of the important role Brookings plays in producing the highest-quality research that has a direct impact on our government's domestic and foreign policy."

He adds, "I am pleased to give Brookings my support now and to ensure that it will continue in the future." Robinson has served as a Brookings trustee since 1977 and was elected an honorary trustee in 1984.

Robinson has had a long and distinguished career in business and

government. He is currently president of Robinson & Associates, president and chairman of DYNA YACHT, Inc., and president of Mangia Onda Co. In 1974, he was appointed undersecretary of state for economic affairs and in 1976 became deputy secretary of state during the Ford administration.

Another important member of the Brookings family, Saul has been a trustee since 1982 and was the vice chairman of the Board from 1985 to 1991. He became an honorary trustee in 1994.

Saul began his career as a foreign service officer with the U.S. Embassy in Prague, then the capital of Czechoslovakia. He joined the INA Corpora-

tion in 1974 and was elected CEO in 1975, a position he continued to hold after the company merged with Connecticut General to form CIGNA Corporation in 1982. His accomplishments in the worlds of public service and the private-sector health-care industry are exceptional.

"As the country's premier think tank, Brookings has a distinguished tradition of independent, non-partisan analysis of issues of national importance," Saul says. "Brookings has consistently taken the time to see that the facts are straight and that the opinions expressed by the scholars are well-documented. I believe this is an important heritage to preserve."

Like Robert S. Brookings and his wife, Isabel—the Institution's original supporters—Charles Robinson and Ralph Saul recognize the vital role that planned giving has in fortifying Brookings's future financial strength.

Brookings can be named as a beneficiary of planned gifts—such as bequests, retirement funds, and insurance policies—and life-income gifts, such as charitable remainder trusts and charitable remainder annuity trusts. Some planned gifts allow donors, like Robinson and Saul, to enjoy tax and income benefits during their lifetimes while making a significant commitment to Brookings. ■

The tour's final stop in Moscow was the elegant old Spaso House, the American embassy residence, for lunch with Ambassador Alexander Vershbow. The career diplomat talked candidly about U.S.-Russia relations and gave a preview of later U.S. government complaints about Putin's handling of Beslan and seizure of appointment power for provincial governors.

The group then traveled to St. Petersburg, where tour members visited the Hermitage Museum in the former palace of the czars, attended a performance of *Giselle*, and met with professors at the European University.

The last stop on the trip was Tallin, capital of the Baltic republic of Estonia, an ancient town with a vibrant nightlife. At lunch with the Brookings group, youthful and energetic Prime Minister Juhan Parts outlined his vision for the country.

Between meetings, the tour participants encountered the cultural contrasts inherent in a Russia entering the 21st century: a new IKEA across from a memorial to the tank traps that helped stop Hitler's invasion; block-long signs in English for Levi's and flat-screen televisions amid centuries-old Orthodox and Byzantine churches; MTV competing with other channels programming ballet and classical music.

The participants also visited an example of what Russians see as their future—a sophisticated brewery that hopes to export its product to the United States to compete with Budweiser and Sam Adams.

"The Brookings expedition to Russia," Talbott says, "reminded me of a cardinal lesson that I learned in two decades as a journalist, and also one of which I was reminded as a diplomat: You can't

sit behind a desk in Washington, reading press accounts or intelligence reports, and get a full, textured picture of a foreign country—especially one that is going through transformation. You have to incur some jetlag and see the situation."

INVESTING IN BROOKINGS

Helping policymakers, the news media, and the public to more clearly "see the situation" in foreign policy, economics, governance, and metropolitan life is the mission of the Brookings Institution.

The many worthwhile projects under this mission cost more than \$40 million every year. The annual draw from Brookings's endowment covers only about 25 percent of expenses. As a nonprofit organization, Brookings relies on the generosity of individuals, corporations, private foundations, and other organizations to contribute a significant portion of the balance. The Brookings Institution reached a remarkable milestone during the past year with more than \$32 million in gifts and commitments—an 84 percent increase over the previous year.

"Brookings's donors ensure the Institution's ongoing financial health and our ability to continue the mission of independent, non-partisan public policy research and education," says Linda Steckley, vice president of development.

"Working closely with Brookings scholars, the trustees and Brookings Council led the effort to provide the Institution with the financial resources necessary to conduct independent research, launch exciting initiatives, and expand our international reach."

The President's Special Initiatives Fund is key to the Institution's ability to broaden its research agenda in a timely way.

Brookings Council

Cyrus F. Freidheim, Jr.—Brookings trustee, retired chairman and CEO of Chiquita Brands International, Inc., and the Brookings Council's current chairman—notes that Council members "contribute over \$6.5 million annually to ensure that Brookings continues the rigorous, independent, and practical research for which it is renowned."

Founded in 1984, the Brookings Council has been the primary source of general operating funds for 20 years. The Council is a select group of business and community leaders who are actively engaged in the intellectual life of the Institution.

Council donors enjoy invitations to Brookings events that address national and international economic, political, and social policy challenges. Events held last year in cities across the country provided Council supporters with a first look at Brookings research on a range of timely issues.

"Direct contact with scholars in small group settings is a unique aspect of involvement with the Council that distinguishes Brookings from other policy organizations," Freidheim says.

During the past year, Council supporters participated in discussions about key policy issues with senior Brookings scholars, government officials, business leaders, and other interested parties.

Economic Studies senior fellows Isabel Sawhill and Peter R. Orszag led sessions on the federal budget and national economy in New York, Boston, and Washington. Foreign policy topics such as the Middle East, U.S.-Europe relations, international trade, and

offshoring were highlighted as well, with Brookings President Strobe Talbott and Foreign Policy scholars James B. Steinberg, Philip Gordon, Lael Brainard, and Martin Indyk leading Council presentations in New York and Washington last spring.

"The compelling presentations by scholars, followed by direct and lively interaction between scholars and members of the audience, are what distinguish Brookings events and result in Council members' vying to host the Council in their city," says Brookings trustee Bart Friedman, a senior partner in the New York law firm of Cahill Gordon & Reindel.

In addition to the many opportunities for involvement with the Institution, including participation in events such as the Fall Brookings Board of Trustees/Council dinner, Council donors also receive complimentary copies of newly released Brookings publications, policy briefs and President's Letters, and a subscription to the Brookings Alert e-mail updates.

"Generous funding from the Brookings Council helps make possible Brookings's significant impact on policymaking," says Linda Steckley, vice president of development.

"We are pleased to recognize the more than 250 corporations and individuals that make up the Council," Steckley says (see list, page 39). "Brookings is delighted that the Council has reached this significant 20-year milestone and looks forward to welcoming many new individuals and corporate representatives who are committed to independent, nonpartisan policy research." ■

Combined Individual/Foundation/Corporate Gifts

Individuals and organizations that provide funds to support Brookings research believe in the quality and impartiality of its scholarly research.

They don't contribute because of the kind of personal and emotional ties that graduates often feel toward their alma maters. They don't give to Brookings because it is an advocacy group that promotes particular causes. They don't contribute because Brookings is sympathetic to a political party or philosophy.

Their altruism is of the highest order, driven by civic concern and deep engagement with public-policy issues.

The following are some of Brookings's most generous contributors:

MAJOR INDIVIDUAL GIFTS

THE GREENSPUN FAMILY

The Greenspun family is among the most philanthropic in Las Vegas. The Greenspuns have had a major impact on the University of Nevada at Las Vegas and the Nevada Cancer Institute. This year their charitable commitments extended to Washington and, through Brookings, to other parts of the world.

Brookings trustee and Council member Brian L. Greenspun, president and editor of the *Las Vegas Sun*, along with his wife, Myra, and the Greenspun family, committed \$1 million to the Institution to support two critical areas of research and programming. Half their gift, to be dispersed over the next five years, is designated for

the President's Special Initiatives Fund and the other half for the Saban Center for Middle East Policy.

It is often difficult to obtain funding for cutting-edge projects. The Special Initiatives Fund provides seed money for projects that the president believes are important to the future of the Institution but that do not have immediate funding. A gift of this size, to be used at the president's discretion, gives Brookings the opportunity to address strategic priorities and maximize the Institution's flexibility to focus quickly on timely policy issues.

At a time when the war on terror must be fought with ideas as well as arms, the original thinking and innovative programming of the Saban Center are providing policymakers with fresh perspectives. Additionally, the Center brings together leaders who otherwise would have no appropriate forum for civil discourse.

Under the direction of Martin Indyk, the Center has become recognized in the United States and abroad for its thoughtful and provocative research and programs. For many years, the Greenspun family has supported efforts to bring peace to the Middle East. Their support will enable the Saban Center to expand those efforts at a time of intensified violence and terrorism in the region.

"In the years ahead, the Greenspuns' generous commitment will guarantee Brookings has the resources to respond to new challenges and opportunities, while also ensuring the continued strength of one of our most important foreign pol-

icy programs," says Brookings President Strobe Talbott.

GIFTS TO ENDOW THE SABAN CENTER FOR MIDDLE EAST POLICY

To further perpetuate the work of the Saban Center for Middle East Policy, it was essential that a substantial endowment be established.

This year, Roland and Dawn Arnall of Ameriquest Capital Corporation in Orange, California, and Eric L. Smidt, president of Central Purchasing, Inc., in Camarillo, California, made generous gifts of \$540,000 each to initiate the endowment for the Saban Center.

Brookings is also grateful to Beny Alagem, co-founder of Packard Bell Electronics, who contributed \$180,000 as part of a three-year commitment to the endowment. These commitments and others to come will provide the financial security to continue the work of Indyk and his colleagues in the years ahead.

Brookings is grateful for the leadership of Haim Saban, a trustee of the Institution, who developed the concept and provided the resources to found a policy center at Brookings devoted entirely to the Middle East.

Since its inception, the Saban Center has been committed to providing analysis of events in the region and to engaging in long-term research projects on Middle East policy issues. Saban Center scholars are regularly quoted in the news media and participate in press briefings, forums, conferences, symposia, and study groups. These activities provide an opportunity not only to disseminate the Center's

research and policy ideas but also to significantly affect the Middle East policy debate in Washington.

JOHN L. THORNTON AND THE INITIATIVE ON CHINA

When John L. Thornton agreed to teach a leadership seminar for the Management and Public Administration schools at Tsinghua University in Beijing, he envisioned a seminar of 20 men and women from the next generation of China's leaders. Hundreds of students applied for admission to his class.

For Thornton, this also presented an opportunity to learn. He interviewed each applicant before selecting those who would participate in the seminar. He asked questions about their lives and backgrounds, their thoughts on China's role in the world in the 21st century, and how each of them hoped to influence the future of their country.

The series of conversations further convinced Thornton of the importance of China in international trade, politics, and economics in the years ahead. As the highest-profile American to join the faculty at Tsinghua, he is uniquely aware of how rapidly life in China is changing. So rapidly, in fact, that it is impossible to grasp the dynamics and scope of the change unless one is there on a regular basis.

As chairman of the Brookings Board of Trustees, Thornton began thinking about his goals for Brookings. He wanted his first project to benefit his shared passions: China and the Institution.

The result was a \$5 million commitment to establish the Initiative on China within the Foreign Policy Studies program, directed by James B. Steinberg. The announcement of Thornton's gift was made to the Board of Trustees at its March meeting.

For Thornton's colleagues on the board, the gift reinforced the idea that Brookings's work has enormous potential but comes at substantial cost. Thornton challenged his colleagues to join him in raising their sights in regard to financial support for the Institution.

As Brookings enters a new era, leading to the 2016 centennial, the chairman has appropriately raised the standard for leadership.

FOUNDATIONS

The strong support of Brookings's foundation partners was critical to the Institution's growing international presence in 2004, as well as to its ongoing work on domestic issues.

The financial resources that foundations provided to Brookings enabled its scholars to conduct innovative research on the critical regions and issues that drive American policy. Three foundations deserve special recognition:

The **Carnegie Corporation of New York** made a major grant to Brookings in 2004 for general support of the Foreign Policy Studies program. This two-year, \$800,000 award provides flexible funding that allows scholars to conduct long-term research on the regional, technological, and structural issues that shape the global security agenda.



Brookings Council members Elbrun and Peter Kimmelman in Moscow during the Russia study tour.

This commitment made the Carnegie Corporation the single largest foundation donor to the Foreign Policy Studies program this year and underscored the commitment of Brookings and Carnegie to building a safer, more secure world.

Carnegie also made important grants to Brookings projects on U.S. political issues, including Congressional redistricting and implementation of the Volcker Commission's recommendations for reorganizing the federal government.

The **John D. and Catherine T. MacArthur Foundation** continued its strong tradition of major funding for the Institution in 2004. With grants totaling nearly \$1 million, MacArthur's support was critical to Brookings's work on both urban and global issues.

The Foundation gave significant funding for the project on Force and Legitimacy in the Evolving International System. The project has two aims: to examine the trends that are challenging the effectiveness of the existing approach to collective security and to develop proposals for adapting the system to contemporary reality.

The MacArthur Foundation also invested in Brookings's groundbreaking work on poverty and politics in Central Asia, a complex and increasingly important region.

MacArthur continued to be a major contributor to Brookings's Metropolitan Policy program, providing both general support and funding for its work on transportation reform in metropolitan areas.

Brookings's growing emphasis on international developments has not diminished its focus on domestic

issues. The **Annie E. Casey Foundation** supported Brookings's work on a host of crucial urban and social policy issues, including ongoing research on welfare reform, support for low-income working families, transportation issues faced by the poor, and parental choice in K-12 education.

The Casey Foundation also provided key funding for the Urban-Brookings Tax Policy Center and for Brookings's Budgeting for National Priorities project, which showed how the federal budget deficit affects programs for poor and low-income working families.

In 2004, the Casey Foundation was Brookings's single largest foundation donor, with a dozen grants totaling more than \$1.4 million. It has been a major partner of Brookings for more than a decade.

"Time and time again the Brookings Institution has produced results that are balanced, authoritative, and relevant to the policy debate," says Douglas W. Nelson, president of the Casey Foundation. "Our partnership not only has allowed us to benefit from Brookings's guidance and insight but, more importantly, has advanced our efforts to assure to every child the core promises of American life."

MAJOR CORPORATE GIFTS

Brookings's 2004 fiscal year brought financial support from corporate benefactors across a range of industries. Several major gifts this year helped strengthen the Institution's commitment to research on international issues, from economics to foreign policy to governance.

Reliance Industries Limited of India, one of South Asia's foremost companies, made a \$100,000 gift of unrestricted support to Brookings in 2004. The Institution is grateful for this generous support from one of South Asia's foremost companies. The kind of flexible funding that Reliance is providing is extremely valuable to Brookings's ability to respond to events as they occur and to produce top-notch research and analysis.

DaimlerChrysler Corporation made a major grant in support of the Center on the United States and Europe (CUSE), which was launched in 2004. The grant will support Brookings's leading-edge research on transatlantic relations and the organization of the DaimlerChrysler U.S.-Europe Forum on Global Issues, a high-level policymaker dialogue that meets twice each year. DaimlerChrysler's support of Brookings and CUSE underscores the global reach of the Institution's research.

In 2004, a growing number of companies in Japan, Taiwan, Hong Kong, and South Korea provided support to Brookings in recognition of its contribution to understanding the global economy and international affairs. Brookings's research agenda touches on many issues that affect these companies, from international trade and exchange-rate economics to China-Taiwan relations and developments on the Korean Peninsula.

Brookings thanks each of its corporate donors for their support in 2004, not just for the financial resources they contributed, but for their valuable insights and perspectives on many issues. ■

The Fund provides seed money for the Brookings president to take advantage of strategic opportunities by instituting new multidisciplinary research projects. The President's Fund also provides Brookings researchers with a head start on critical projects when there has not been time to secure funding.

"We are pleased that we were able to expand the Special Initia-

tives Fund during 2004, reinforcing Brookings's flexibility and responsiveness to significant developments at home and abroad," Steckley says.

The President's Fund is only one type of unrestricted funding that enables Brookings to act quickly when global crises demand immediate analysis and response.

"We are very grateful to our



Richard C. Blum, founding donor of the Poverty and Global Economy Initiative, at a conference in Aspen

corporate and individual donors, along with a number of foundations, who make these vital gifts to the Institution," Steckley says. "They support the critical infrastructure that undergirds all of

Brookings's research and communications activities and enables our scholars to react to events as they unfold."

The following pages highlight key commitments from individuals, corporations, and private foundations that have propelled Brookings forward and solidified its internationally recognized role as a source of independent research that shapes the future. ■

Endowed Chairs

In an environment of economic uncertainty, Brookings's endowment provides a steady source of financial support and plays an integral role in helping the Institution build on its extraordinary record of achievement.

The endowment not only enhances the long-term financial security of the Institution, it also provides a way for Brookings to honor key donors and important members of the Brookings community in perpetuity.

We are pleased to recognize the scholars who held endowed chairs during fiscal year 2004 and the donors who made it possible.

ENDOWED CHAIRS

The Michael H. Armacost Chair was established through the generosity of numerous donors to honor former Brookings President Michael H. Armacost by supporting research in foreign policy studies with an emphasis

on Asia. Chairholder: Richard C. Bush, Director of Northeast Asian Policy Studies.

The Herman and George R. Brown Chair was established by the Brown Foundation Inc. of Houston in 1994 to support research in education policy. Chairholder: Diane Ravitch, Governance Studies Nonresident Senior Fellow.

The Cabot Family Chair was established by the Cabot Family Charitable Trust. Chairholder: Isabel V. Sawhill, Vice President and Director of Economic Studies.

The Douglas Dillon Chair was established by the Dillon Fund to support research in government studies. Chairholder: Paul C. Light, Director of the Center for Public Service.

The Stephen and Barbara Friedman Endowed Fellowships were established by Brookings trustee Stephen Friedman and his wife, Barbara. Fellowship recipient: Nigel Purvis, Foreign

Policy, Economic, and Governance Studies Senior Fellow.

The W. Averell Harriman Chair was established by the W. Averell & Pamela C. Harriman Foundation to support research in American governance. Chairholder: Thomas E. Mann, Governance Studies Senior Fellow.

The Adeline M. and Alfred I. Johnson Chair was established by then-Brookings Chairman James A. Johnson in support of research on urban and metropolitan policy. Chairholder: Bruce Katz, Vice President and Director of Metropolitan Policy.

The Bruce and Virginia MacLaury Chair was established in honor of Brookings's fourth president, Bruce MacLaury, and his wife, Virginia. Chairholder: Henry J. Aaron, Economic Studies Senior Fellow.

The Arjay and Frances Fearing Miller Chair was established by Brookings trustee Arjay Miller and his wife, Frances Fearing Miller, to support research on federal economic policy. Chairholder: William

G. Gale, Economic Studies Senior Fellow.

The New Century Chair in International Trade and Economics was established by Toyota to support research on international trade and economics. Chairholder: Lael Brainard, Economic and Foreign Policy Studies Senior Fellow.

The Robert V. Roosa Chair was established through the generosity of numerous donors to honor former Brookings trustee Robert V. Roosa and to support research on international economics. Chairholder: Barry P. Bosworth, Economic Studies Senior Fellow.

The Sydney Stein Jr. Chair was established by former Brookings trustee Sydney Stein Jr. to support research on international security. Chairholder: Michael E. O'Hanlon, Foreign Policy Studies Senior Fellow.

The John C. and Nancy D. Whitehead Chair was established by Brookings trustee John Whitehead and his late wife, Nancy. Chairholder: Gary Burtless, Economic Studies Senior Fellow. ■

These additional endowments are greatly valued by the Brookings Institution:

The Edward M. Bernstein Scholars Fund

The John C. Bowen Endowed Presidential Fund

The Carliner Endowment for Economic Studies

The Juliet & Lee Merrit Folger/Folger Fund Fellowship

The Robert and Virginia Hartley Fellowship

The Ed Hewett Fellowship Fund

The Robert S. Kerr Fund

The Oscar E. Kiessling Fellowship

The Okun Model Fellowship Fund for Economic Studies

The Pechman Fellowship Fund

The Ralph S. Saul Endowment Fund

The Ezra K. Zilkha Endowment ■

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| Nissho Iwai Foundation | Marcia W. Dam | Stanley M. Rumbough, Jr. | John Edward Porter |
| Novartis Pharmaceuticals Corporation | D. Ronald Daniel and Lise C. Scott | Henry B. Schacht | Principal Financial Group Foundation, Inc. |
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| NYK Line | Bruce B. Dayton | Sheldon and Elinor A. Seevak | Dorothy P. Rice |
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| Sumitomo Corporation | David Friend | Andrew H. Tisch | John Train |
| Government of Switzerland | Ann M. Fudge | Toyota | Transwestern Commercial Services |
| The University of Sydney | The Furth Family Foundation | U.S. Department of Labor | Laura D'Andrea Tyson |
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| Taiwan Semiconductor Education and Culture Foundation | Lincoln Gordon | Antoine W. van Agtmael | Walker & Dunlop |
| Nelson Talbott | Enzo Viscusi | James M. Walsh | West Group |
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| Tudor Investment Corporation | Morton Goulder | Eric Weinmann | YMCA of Metropolitan Washington |
| The USAA Foundation, A Charitable Trust | Vartan Gregorian | Malcolm H. Wiener | Zachry Construction Corporation |
| U.S. Department of Transportation | Patrick W. and Sheila Proby Gross | Wiley, Rein & Fielding LLP | |
| Union Pacific Railroad Company | John H. Gutfreund | James M. Wootton | |
| The Washington Post | Peter E. and Mimi Haas | World Zionist Organization | |
| Harvey L. Weiss | James Hackett | | |
| James D. Wolfensohn | Samuel Hellman, M.D. | | |
| Wyeth | Robert A. Helman | \$500 to \$4,999 | |
| The Xerox Foundation | Harold Hestnes | Robert E. Asher | |
| Daniel H. Yergin and Angela Stent | Marshall M. and Doris B. Holleb | Martin N. Baily | |
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| | William M. Cameron | Douglas Kiessling | |
| | Caterpillar Foundation | Augustus K. Oliver | |
| | | John E. Osborn | |
| | | David O. Maxwell | |

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2004 and 2003 (in thousands)

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | 2004 TOTAL | 2003 TOTAL |
|---|---------------|------------------------|------------------------|---------------|----------------|
| OPERATING REVENUES | | | | | |
| Investment return designated for operations | \$10,503 | | | \$10,503 | \$11,191 |
| Grants and contracts | 530 | \$26,257 | | 26,787 | 12,107 |
| Contributions | 3,096 | 555 | | 3,651 | 2,586 |
| Conferences | 3,132 | | | 3,132 | 3,566 |
| Brookings Press | 2,765 | | | 2,765 | 2,654 |
| Information Technology Services | 55 | | | 55 | 49 |
| Interest and dividends | 7 | | | 7 | 27 |
| Rental income, net | 61 | | | 61 | 300 |
| Visiting scholars | 375 | | | 375 | 244 |
| Other income | 358 | | | 358 | 86 |
| Net assets released from restrictions- Grants and contracts | 17,137 | (17,137) | | 0 | 0 |
| Total Operating Revenue | 38,019 | 9,675 | | 47,694 | 32,810 |
| OPERATING EXPENSES | | | | | |
| Operating programs: | | | | | |
| Economic Studies | 10,428 | | | 10,428 | 9,765 |
| Foreign Policy Studies | 7,157 | | | 7,157 | 6,493 |
| Governance Studies | 4,283 | | | 4,283 | 6,073 |
| Other research | 771 | | | 771 | 217 |
| Center for Public Policy Education | 4,010 | | | 4,010 | 3,629 |
| Brookings Press | 3,337 | | | 3,337 | 3,140 |
| Communications | 989 | | | 989 | 1,104 |
| Total Operating Programs | 30,975 | | | 30,975 | 30,421 |
| Supporting services: | | | | | |
| Management and General | | | | | |
| Information Technology Services | 2,156 | | | 2,156 | 2,199 |
| Administration | 3,761 | | | 3,761 | 3,845 |
| Interest expense | 111 | | | 111 | 142 |
| Post-retirement benefits | 746 | | | 746 | 743 |
| Total management and general | 6,774 | | | 6,774 | 6,929 |
| Development | 1,927 | | | 1,927 | 1,875 |
| Total Operating Expenses | 39,676 | | | 39,676 | 39,225 |
| Operating revenues over (under) operating expenses | (1,657) | 9,675 | | 8,018 | (6,415) |
| NON-OPERATING ACTIVITIES | | | | | |
| Investment return in excess of amounts designated for operations: | | | | | |
| Realized gain (loss) on sale of investments | 9,100 | | | 9,100 | (10,880) |
| Unrealized gain from investments | 21,203 | | | 21,203 | 15,192 |
| Interest and dividends, net | 1,855 | | | 1,855 | 3,261 |
| Investment income allocation | (10,503) | | | (10,503) | (11,191) |
| Contributions-Permanent Endowment | | | 1,669 | 1,669 | 215 |
| Change in net assets from non-operating activities | 21,655 | | 1,669 | 23,324 | (3,403) |
| INCREASE (DECREASE) IN NET ASSETS | 19,998 | 9,675 | 1,669 | 31,342 | (9,818) |
| Net assets at the Beginning of the Year | 155,096 | 16,971 | 44,795 | 216,862 | 226,680 |
| Net assets at the End of the Year | \$175,094 | \$26,646 | \$46,464 | \$248,204 | \$216,862 |

STATEMENTS OF FINANCIAL POSITION

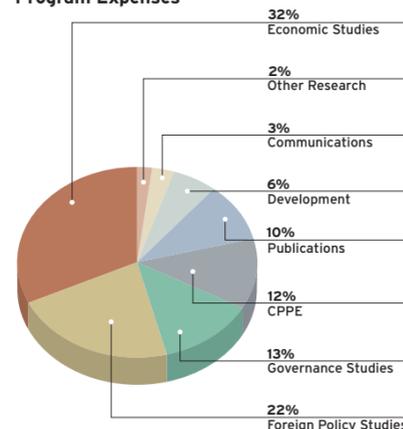
As of June 30, 2004 and 2003 (in thousands)

| | 2004 | 2003 |
|---|------------------|------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$1,787 | \$3,038 |
| Accounts receivable | 1,416 | 2,582 |
| Grants and contracts receivable, current portion | 13,573 | 6,209 |
| Pledges receivable, current portion | 523 | 785 |
| Accrued interest and dividends | 103 | 231 |
| Inventory | 817 | 778 |
| Other assets | 337 | 262 |
| Total current assets | 18,556 | 13,885 |
| Grants and contracts receivable, net of current portion | 7,185 | 3,772 |
| Pledges receivable, net of current portion | 1,087 | 83 |
| Investments, at fair value | 219,286 | 197,114 |
| Land, buildings and equipment, net | 11,999 | 12,796 |
| TOTAL ASSETS | \$258,113 | \$227,650 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$2,312 | \$3,406 |
| Accrued compensated leave | 1,478 | 1,351 |
| Deferred revenue | 695 | 856 |
| Note payable, current portion | 450 | 450 |
| Total current liabilities | 4,935 | 6,063 |
| Note payable, net of current portion | 600 | 1,050 |
| Post-retirement benefit obligation | 4,374 | 3,675 |
| TOTAL LIABILITIES | \$9,909 | \$10,788 |
| NET ASSETS | | |
| Unrestricted | \$175,094 | \$155,096 |
| Temporarily restricted | 26,646 | 16,971 |
| Permanently restricted | 46,464 | 44,795 |
| Total net assets | 248,204 | 216,862 |
| TOTAL LIABILITIES AND NET ASSETS | \$258,113 | \$227,650 |

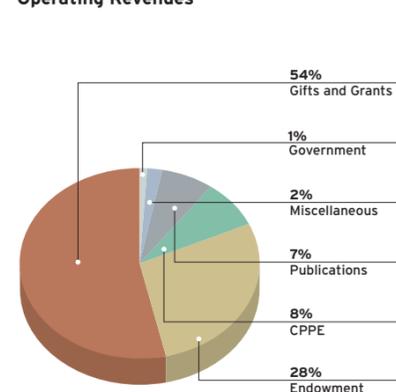
Notes:

As a nonprofit and scientific organization, Brookings is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Institution also qualifies as a publicly supported organization under section 170(b)(1)(A)(vi) of the code. The Brookings policy is to make an annual investment spending allocation for the support of operations. This amount is calculated based on 70% of the prior year's spending adjusted for inflation and 30% of 5% of the market value of the investments as of December 31 of the prior fiscal year. A copy of the Institution's audited financial statements is available by request. Certain reclassifications of prior year balances have been made to conform to the current year presentation.

Program Expenses



Operating Revenues



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(July 1, 2003–June 30, 2004)

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- Average monthly total of Brookings mentions in various print, TV, radio, wire, and web outlets: 1,164
- Average number of Brookings mentions each month in the *New York Times*, *Washington Post*, and *Los Angeles Times*: 67
- Number of op-eds written by Brookings scholars for U.S. and international newspapers: 188
- Number of op-eds by Brookings scholars published in the *New York Times*, *Washington Post*, and *Los Angeles Times*: 57
- Number of TV and radio interviews conducted in the Brookings Studio: 1,028
- Number of subscribers to the Brookings Alert on the web (as of October 1): 22,500
- Number of employees at the Brookings Institution's headquarters: 281
- Number of Brookings resident and nonresident scholars: 147
- Number of Brookings scholars who are resident senior fellows: 43
- Number of Brookings scholars who are nonresident senior fellows: 44
- Number of guest and visiting fellows: 44
- Number of research assistants: 43
- Number of current Brookings scholars who have served in the government or in an international agency: 65
- Number of times that Brookings scholars testified at Congressional hearings: 27
- Number of Brookings scholars who testified before the National Commission on Terrorist Attacks Upon the United States (9/11 Commission): 4
- Number of languages spoken by Brookings scholars: 14
- Number of Policy Briefs published: 21
- Number of books published by the Brookings Institution Press: 52
- Number of scholarly journals published by Brookings: 8
- Number of articles written for the Brookings website: 47
- Number of public briefings at Brookings: 56
- Average audience size for a briefing in Falk Auditorium: 107
- Dollar value of the Brookings Institution endowment (as of June 30, 2003): \$219,286,000

BROOKINGS