

QUALITY
IMPACT AND
INDEPENDENCE

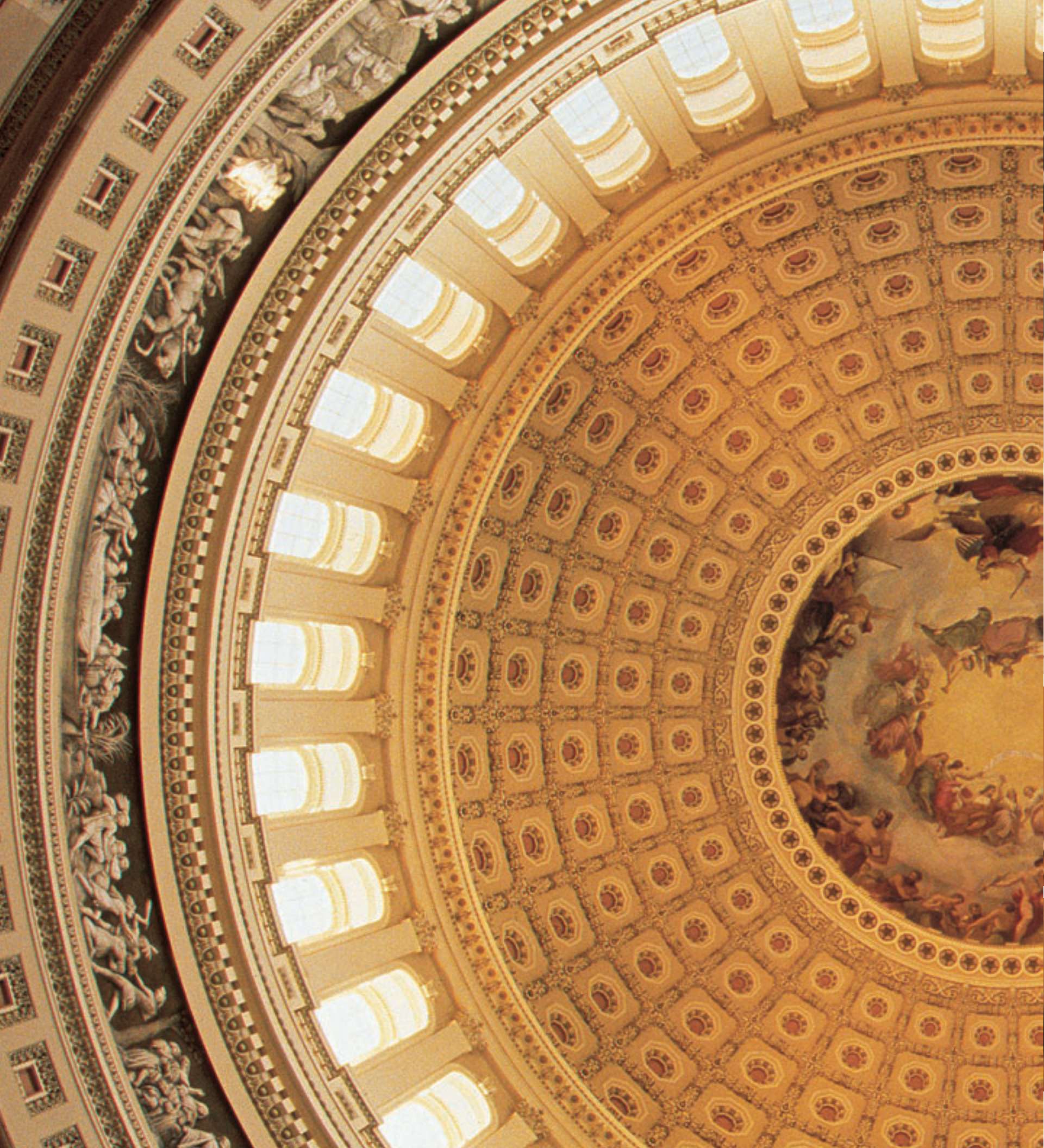


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ANNUAL
REPORT
2005

THE
BROOKINGS
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Editor: Melissa Skolfield, Vice President for Communications
 Writers: Katie Busch, Shawn Dhar, Anjetta McQueen, Ron Nessen
 Design and Print Production: The Magazine Group, Inc.
 Jeffrey Kibler, Virginia Reardon, Brenda Waugh
 Production Coordinator: Adrianna Pita
 Printing: Jarboe Printing
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 1775 Massachusetts Avenue, NW
 Washington, DC 20036
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 Fax: 202-797-6004
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The Brookings Institution is a private nonprofit organization devoted to independent research and innovative policy solutions. Celebrating its 90th anniversary in 2006, Brookings analyzes current and emerging issues and produces new ideas that matter—for the nation and the world.

- For policymakers and the media, Brookings scholars provide the highest-quality research, policy recommendations, and analysis on the full range of public policy issues.
- Research at the Brookings Institution is conducted to inform the public debate, not advance a political agenda. Our scholars are drawn from the United States and abroad—with experience in government and academia—and hold diverse points of view.
- Brookings traces its beginnings to 1916, when a group of leading 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, one of IGR's backers, Robert Somers Brookings (1850–1932), established two sister organizations: the Institute of Economics and a graduate school bearing his name. In 1927, the three groups merged to form the Brookings Institution, honoring the businessman from St. Louis whose leadership shaped the earlier organizations.
- Today, Brookings is financed largely by an endowment and through the support of philanthropic foundations, corporations, and private individuals. The Institution's funds are devoted to carrying out its research and educational activities. Brookings also undertakes a small number of unclassified government contract studies, reserving the right to publish its findings from them.
- A Board of Trustees is responsible for the general supervision of Brookings, approval of its areas of investigation, and the safeguarding of the independence of its work. The Institution's president is its chief executive officer, responsible for formulating and setting policies, recommending projects, approving publications, and selecting staff. ■



Broadcast reporters zoom in for a forum on a new compact for Iraq featuring U.S. Sen. Joseph Biden of Delaware.

This has been an especially busy and productive year at Brookings. As you will see in the pages that follow, our scholars tackled some of the most important and daunting issues facing our nation: how to budget our resources to deal with the rising costs associated with homeland security and health care; how our cities and states might govern themselves efficiently; and how to ensure the vitality of American democracy and restore civility to our public discourse and political debate—a part of our mission that will become all the more evident as the country heads into the 2006 midterm elections and the 2008 presidential race.

In our work on America's role in the world, we have continued to produce important scholarship while also building new capacity.

In two areas of deep personal interest to me, it was an exciting year: during a visit to Washington in May,

former South African president Nelson Mandela used Brookings as a platform for a major speech urging more aid for Africa—and more wisdom on the part of African governments in the way they use that aid. And in September, we launched our China Initiative.

I have a strong commitment to the study of China—its past, its present, and, most of all, its future. From that perspective, I am concerned that most Americans, including many thought-leaders, do not know very much about China or the unprecedented pace with which it is defining itself as a formidable global force.

What is occurring and will occur in China is of enormous significance, and raises fundamental questions. How will it affect the lives of the Chinese people? What changes will the Chinese government need to make? How will developments in China affect the rest of the world, and particularly the United States? What adjustments and accommodations will we need to make?

The scholars of the China Initiative at Brookings, adopting an interdisciplinary approach involving all the research programs, will examine these questions, and many more, and will share their conclusions and recommendations with the policy-

making community and the public, both in the United States and in China. Because the Initiative will be conducting research and providing advice to policymakers in both countries, it intends to have functioning offices in both Washington and Beijing.

The selection of Jeffrey Bader to be director of the China Initiative was a superb choice. During his 27 years in the State Department, Jeffrey served in Beijing, Hong Kong, and Taiwan, so he has first-hand experience in that vital region. He has been deputy assistant secretary of state for East Asian affairs and director of Asian affairs on the National Security Council. And he has served as Assistant United States Trade Representative, responsible for China, Taiwan, Hong Kong and Mongolia.

Like our other research programs and policy centers, this new venture will generate research, analysis and policy prescriptions in an independent, nonpartisan spirit, and in a form that is accessible and useful to the public and policymakers alike. I invite you to avail yourselves of our work. It's in print, in the form of publications and books, and on the Brookings website—www.brookings.edu. And you'll be seeing and hearing plenty from our scholars on television, on the radio, and on the op-ed pages around the country and the world. You'll find their ideas reflect a lot of careful, constructive thought. ■



John L. Thornton, Brookings chairman

FORREST MACCORMACK

The year after a Presidential election is always especially important. After a long and bruising campaign, can the nation unite? And can political leaders get back to the task of governing at home and leading abroad? The world waits, with a mixture of hope and apprehension, for the answer.

In 2005, party spokesmen, as usual, pledged to put the battle behind them. But the spirit of reconciliation and common purpose evaporated quickly. On Capitol Hill, the wrangle over filibusters deteriorated to the point where there was talk of "going nuclear." In that combative atmosphere the Senate suddenly had to provide its advice and consent on nominations to fill two vacancies on the Supreme Court—the first time in eleven years that any seat had opened up.

Then there was Katrina. While the hurricane devastated the Gulf Coast, the immediate aftermath generated a nationwide outburst of "blame-storming" over emergency preparedness, climate change, and, most searingly, poverty and race.

A full three years before the next presidential election, the race was on. Several Democrats made their own ambitions clear, and a few Republicans appeared to be running not just for the presidency but away from the current incumbent.

All this posed a particular challenge for us at Brookings, given our commitment both to civil political discourse, and to providing high-quality, high-impact, independent research and recommendations. Rising to the occasion, our scholars collaborated more than ever, both internally and with colleagues elsewhere on Think Tank Row.

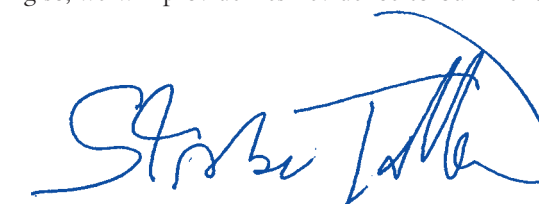
Several new or enhanced programs focused on the home front. We stepped up our economic work through our Retirement Security Project. We entered the fray on the issue of judicial selection, and began to examine the relationship between the courts and Congress. We launched a new Center on Children and Families. And through our Metropolitan Policy program, we provided prompt, practical suggestions on rebuilding the Gulf Coast.

Meanwhile, our Governance Studies program undertook a major new effort to identify the causes of—and come up with remedies for—the problem of excessive and corrosive partisanship.

In the wider world, some familiar challenges grew in intensity. Most prominently, violent instability continued to plague Iraq, and to undermine public support for a continued military presence. And the European malaise took a turn for the worse with the French and Dutch repudiation of the E.U. constitution.

This heightened discord tended to drown out some positive developments. As an indication that diplomacy was making a comeback, Secretary of State Condoleezza Rice made her first speech in Israel at a conference cosponsored by our Saban Center for Middle East Policy. She used the occasion to signal her personal commitment to helping our trustee, Jim Wolfensohn, with the economic reconstruction of Gaza. In the midst of his diplomatic exertions, Jim found time to add a whole new dimension to Brookings's capacity to tackle the issue of global poverty. We further extended our reach with the creation of the Global Economy and Development Center, and the inauguration of the China Initiative that John Thornton has made possible.

In 2006, Brookings will celebrate its 90th anniversary. We plan to use the year to consolidate our strengths with an eye to the future. We're confident that in doing so, we will provide fresh evidence to our friends that their trust and support are well placed. ■



Strobe Talbott, Brookings president

FORREST MACCORMACK



Isabel Sawhill, vice president and director of Economic Studies, greets journalists at the National Press Club for a seminar on covering the federal budget deficit.

Economic Studies

The numbers are staggering. The stakes are enormous. With an annual budget deficit of more than \$300 billion, the United States is reducing federal spending on children's health and education programs, straining to cover the retirement and medical needs of an aging population, and fighting the tide of rising government debt. Meeting these policy challenges and others head on, the Brookings Economic Studies program continued its leadership role in drawing public attention to the critical fiscal problems this nation faces.

And because the next generation will bear the brunt of these policy decisions, it's fitting that the Economic Studies program launched its new Center on Children and Families this year. The Center builds on the Institution's landmark work on welfare reform, a nearly decade-long examination of Washington's far-reaching redesign of federal aid programs to the poor. Brookings turned its research and outreach to focus on why many of the nation's low-income families—though no longer on welfare rolls—remain far from the middle class.

Isabel V. Sawhill, Brookings vice president and director of the Economic Studies program, launched the Center in September 2005 with co-director Ron Haskins, a Brookings senior fellow who helped write the 1996 welfare law and continued his policy work under President Bush.

"Too many people are in low-wage jobs and their struggles continue," Sawhill said. "We intend to address what types of policies might improve their lives and their children's futures."

The Center developed a post-welfare reform road map of other issues that affect poor and low-income working families and have become increasingly important—including early education, the Earned Income Tax Credit and other forms of income supplements, transportation, asset accumulation, job advancement, and social mobility.

The scholars promise to play an active role in studying ways to increase the proportion of children who grow up with parents who are married and reminding policymakers to consider children's futures when making difficult fiscal choices on long-term budget deficits and the health care and retirement needs of the aging baby-boom generation.

"The government needs to uphold its side of that bargain, as well, which is: If you work, you shouldn't be poor," said Sawhill.

The scholars' work on children and families was significantly

RALPH ALSWANG



Senior Fellow Peter Orszag discusses budget issues at the joint Brookings-Heritage federal fiscal seminar.

RALPH ALSWANG

extended through a new partnership with Princeton University. *The Future of Children* is a new jointly published journal promoting effective policies and programs for children. The inaugural volume, released in spring 2005, critically summarized research on the origin and status of racial and ethnic gaps in student achievement, raising questions on when differences begin to emerge, what factors contribute to their development, and, most important, what can be done about them.

The journal and Center are among Economic Studies' successes in launching new projects, attracting new scholars, and contributing to the program's growth. This year, Economic Studies scholars published 13 new books with the Brookings Press. They were cited in numerous stories in the news media, wrote opinion articles, testified at formal congressional hearings, and made presentations at a wide variety of academic, industry, and think

tank-sponsored conferences and public meetings. The Budgeting for National Priorities project, and extensive research on the aging of the population and on Social Security, all played major roles in the fiscal debates dominating the domestic

agenda. The Center on Social and Economic Dynamics (CSED) pioneered new ways of studying issues such as bioterrorism, pandemic flu, obesity, and smoking. And numerous Economic Studies scholars collaborated with their colleagues in other programs to



Bill Gale, senior fellow, confers with Steve Ellis, Vice President, Taxpayers for Common Sense, on using the federal tax code to encourage responsible use of environmental resources.

RALPH ALSWANG

examine global economic issues focusing on China, India, Japan, Russia, and Puerto Rico; political obstacles to fiscal responsibility; and the impact of federal economic policy on states and local communities.

But it was the U.S. budget deficit that framed almost every issue in 2005. In April, the Economic Studies program released its second book on the federal budget deficit, *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge*. This book—edited by Sawhill and senior fellow Alice Rivlin—focused on the tough choices that Americans will have to make in the next several decades as the population ages and medical costs skyrocket. Contributors included senior fellows Henry Aaron, Bill Gale, Ron Haskins, and Peter Orszag; visiting fellow Jack Meyer; John Shoven from Stanford University; and Rudolph G. Penner and C. Eugene Steuerle, senior fellows at the Urban Institute. Authors suggested specific steps to increase government revenue and reduce spending, especially on the three big entitlement programs: Medicaid, Medicare, and Social Security.

The project drew heavily on the data and analysis of the Urban-Brookings Tax Policy Center, which continued to be the most widely cited and influential source of data and research for the current debates on extending the recently enacted tax cuts; making the tax system more fair, more simple, and more efficient; and using the tax code to achieve various economic and social objectives. The Tax Policy Center's findings were repeatedly cited in major newspapers and in numerous editorials nationwide.

So what did authors with such a variety of disciplines and approaches agree on in terms of restoring fiscal sanity? Policy

changes should be made sooner rather than later to avoid jarring reductions in the level of current benefits. Social Security cannot be fixed with gimmicks. And national savings must increase.

Authors discussed their disagreements in the book and in a public forum announcing the book's publication: whether building up a larger trust fund would contribute to national saving and would reduce the overall budget imbalance, and whether individual accounts should replace part of Social Security.

Striving to find policy solutions and common-sense reforms to boost retirement security, Brookings's new Retirement Security Project delved into exciting new research that featured a randomized field experiment with tax giant H&R Block to examine whether, and at what level, matching funds will encourage moderate- and low-income households to contribute to their retirement savings.

"For the first time, we have confirmed through a randomized field experiment what we had

intuitively believed to be true—that middle- and lower-income earners will put away funds for retirement if it's easy and if effective incentives are offered," said senior fellow Orszag, director of the Retirement Security Project. The Pew Charitable Trusts increased its commitment to the Retirement Security Project by providing more than \$1 million over two years.

In the field experiment, researchers examined the records of 15,000 St. Louis-area taxpayers who volunteered for the project. The study showed that IRA contributions were four to eight times higher when people were offered matching rates of 20 percent to 50 percent for those contributions. Researchers offered important revelations at a time when \$10,000 is the midpoint balance of 401(k) and individual retirement accounts combined for boomers on the verge of retirement, and demonstrated that lower-wage workers will tuck their money into retirement programs given the right incentives and assistance. ■



Alice Rivlin adds her voice to the federal fiscal seminar debate.

RALPH ALSWANG

Tracking the Export of U.S. Jobs

Susan Collins had a platinum education: B.A. from Harvard, Ph.D. from the Massachusetts Institute of Technology.

In her areas of expertise—international economics, development, trade, and balance of payments issues—she's had real-world experience. She was a senior staff economist with President Clinton's Council of Economic Advisers. And she's been a scholar: teaching at Harvard and Georgetown University, and now as a senior fellow in

Brookings senior fellow Carol Graham, of the 2004 volume of the Brookings Trade Forum, *Globalization, Poverty, and Inequality*.

Collins's work on Puerto Rico, a U.S. commonwealth, focuses on the island's economy—which grew rapidly in the 1950s, 1960s, and into the 1970s. But in the mid-1970s that rapid expansion stopped and Puerto Rico's economy has been sluggish ever since.

Collins visited Puerto Rico several times, attending a number of



Senior Fellow Susan Collins at her Brookings office.

RALPH ALSWANG

the Economic Studies program at Brookings.

At Brookings she has focused her considerable intellect, experience, and academic abilities on two areas: the offshoring of work once done by U.S. workers to lower-wage countries, and economic and development issues in Puerto Rico.

Collins was co-editor (with Lael Brainard, vice president and director of the Global Economy and Development Center at Brookings) of the 2005 volume of the Brookings Trade Forum, *Offshoring White-Collar Work—The Issues and the Implications*, to which 23 international experts contributed articles.

The publication presented analysis covering the implications of offshoring for U.S. workers and U.S. competitiveness, overseas call centers, India's rise as a services provider, and other topics. Many of the contributors to the Collins-Brainard volume presented their papers at a two-day conference at Brookings in May 2005.

Collins also was co-editor, with

conferences that brought together scholars and policymakers from Puerto Rico and the mainland.

"Why did growth fall apart there?" Collins said. "The mainland experts know about the broad issues. The experts from Puerto Rico have an institutional perspective. They know about the history and about the specifics."

The idea for the Puerto Rico project at Brookings originated with a think tank on the island, called the Center for the New Economy. Officials at the Center, modeled somewhat after Brookings, approached the Economic Studies program, saying they were looking for a "quantifiable approach" to the analysis of economic problems and solutions for Puerto Rico. Developing reliable data and statistics was a key goal.

Funding for the project came entirely from sources in Puerto Rico. Collins said she hopes her findings and recommendations will have "real-world relevance" which will help the island create a dynamic growth economy. ■

Global Economy and Development

The newly established Global Economy and Development Center will stimulate research and dialogue to provide fresh solutions to the forces of globalization and the challenges of global poverty.

As globalization generates new risks and opportunities, “our goal is to take the policy debate in new directions by providing fresh ideas on America’s ability to compete in the global economy, the road out of poverty, and the rise of new economic powers,” said Lael Brainard, who became Brookings vice president and Center director in 2005.

Because the forces of globalization reach across disciplinary boundaries, Global Economy draws on the contributions of scholars from different disciplines, including international and comparative economics, political science, development, and law. The new Center is an “incubator for ideas that matter.” These powerful ideas and insights benefit from extensive interaction with the key stakeholders such as political leaders and policymakers, academic experts, and representatives from the private sector and non-government organizations through conferences, roundtables, workshops, writings, website resources, and media outreach.

America’s Place in the Global Economy

Brookings has helped to inject analysis and data into the sometimes heated debate on services offshoring. Economic Studies senior fellow Susan Collins and Brainard devoted the 2005 Brookings Trade Forum to an in-depth examination of the multiple dimensions of offshoring (see Collins profile, page 9). The con-



Lael Brainard, vice president and director of the Global Economy and Development Center (center), participates in an Aspen conference with Smita Singh, of the Hewlett Foundation (left), and Mary Robinson, former president of Ireland and founder of the Ethical Globalization Initiative.

ference and edited volume, *Offshoring White-Collar Work—The Issues and the Implications*, delved into questions about how this latest wave of offshoring compares with earlier episodes of manufacturing offshoring in terms of economic theory and its impact on U.S. labor markets. They also considered India’s side of the story, assessing the place of services in its overall poverty and development strategy. A series of industry case studies sheds light on what industry characteristics make offshoring more likely and

provides nuanced insights into how offshoring redistributes different parts of the value chain between high- and low-wage economies.

In a policy brief, “Insuring America’s Workers in a New Era of Offshoring,” Brainard, senior fellow Robert Litan, and senior research analyst Nicholas Warren argued that the new wave of offshoring and accelerated technological change warrants a new insurance program to ensure against wage loss for permanently displaced workers who secure

reemployment at lower pay. Their estimated cost of roughly \$25 per worker per year is a small price to help displaced American workers get back to work more quickly, seek opportunities in new sectors, and gain valuable on-the-job training.

Brookings’s work on competitiveness was immeasurably enhanced through the generosity of Bernard L. Schwartz, chairman of the board and chief executive officer of Loral Space & Communications, with the establishment of the new Bernard L.

Effects of Global Poverty

Senior Fellow Susan Rice’s current research at Brookings focuses on one of the most daunting challenges facing Planet Earth—poverty and its global impact.

With the issue attracting the interest of celebrities and activists alike, for a rare moment, global poverty reduction is near the top of the international agenda. “Today, addressing poverty is hip,” Rice said. “But it’s also smart policy.”

For example, Rice argues that poverty has far-reaching national security implications for the United States which “can come back to haunt us.” Her work aims to elucidate the indirect but significant linkages between poverty, weak state capacity and security. By fueling civil conflict and undermining countries’ ability to control their borders and resources—as well as to provide for the essential needs of their citizens—poverty helps render many states vulnerable to a range of transnational security threats.

Poverty erodes the capacity of weak states to “protect their citizens and

their territory from predation,” Rice said, which can become manifest in the form of a jihadist terrorist presence, criminal and drug networks, infectious disease, and environmental degradation. She has written several articles on this vital subject, and at the end of her long-term research plans to complete a book elaborating her findings and conclusions.

Rice is a Senior Fellow in Foreign Policy Studies, and is also affiliated with the newly established Global Economy and Development Center. In the Clinton Administration, she served as Assistant Secretary of State for African Affairs, and at the National Security Council as Special Assistant to the President, Senior Director for African Affairs and Director for International Organizations and Peacekeeping.

She also writes and speaks frequently on a wide range of U.S. foreign policy issues, including terrorism, non-proliferation, post-conflict reconstruction, UN affairs and democracy promotion.

In summer 2005, Rice



Senior Fellow Susan Rice questions former National Security Advisor Brent Scowcroft at a Brookings presentation on high-level threats.

produced a widely-circulated, detailed budget analysis in which she challenged the assertion that American assistance to sub-Saharan Africa had tripled from

2000 to 2004. By Rice’s calculation, aid to Africa increased by 56 percent in real dollars, a significant increase. “While laudable, the increase was mostly in

emergency food aid—rather than in assistance for sustainable development of the sort Africa needs to achieve lasting poverty reduction,” she said. ■

Schwartz Chair in International Economics (see Schwartz article, page 35). The chair will tackle some of the big global competition challenges facing America, including how to address trade, technology, intellectual property rights, and a changing relationship between developed and developing countries.

Rising Economic Powers

As the rise of economic powers such as the so-called BRICS (Brazil, Russia, India, China, and

South Africa) continues to transform the international landscape, Global Economy is building its capacity to understand the economic challenges faced by these nations and their impact on other nations and the international system.

Continuing his work on the Russian economy, senior fellow Clifford Gaddy helped shape thinking both inside and outside Russia on that country’s long-term development and its role in the world economy. His most

recent book, *The Siberian Curse: How Communist Planners Left Russia Out in the Cold*, written with Brookings colleague Fiona Hill, has attracted the attention of the highest policymaking circles in Russia for its innovative approach to analyzing the costs of spatial misallocation of people and economic activity. A Russian-language edition of the book that will be appearing in early 2006 promises to launch a nationwide debate on the future of Russia’s vast and resource-rich Siberian

and Far Eastern territories, including critical challenges of demographics, migration, and foreign and domestic investment in the region.

Global Economy was delighted to welcome new senior fellow Erik Berglof, an expert on transition economies and corporate governance. His distinguished experience in helping to nurture independent economics research think tanks in Russia and other transition economies is now being applied to the much larger

challenge of building the Global Institute. The Institute, a research partnership among new economic think tanks throughout the rising economies that include Russia, China, India, and Brazil, is undertaking new collaborative research projects on cross-cutting issues.

Brookings scholars Colin Bradford and Johannes Linn are leading a multi-year project examining the implications of the rise of new economic powers for the system of global governance. Their policy brief, "Global Economic Governance at a Crossroads: Replacing the G-7 with the G-20," laid out a road map for expanding the exclusive club of the G-7/8 with leadership more representative of today's global leadership. Since its publication, they have held a series of high-level meetings to promote this proposal. In September 2004, Bradford and Linn co-hosted more than 30 participants from universities, think tanks, and international organizations to advance thinking on the G-20, including Canadian Prime Minister Paul Martin, a key champion of the G-20 approach.

The Road Out of Poverty

In a year filled with heightened interest in fighting global poverty—from the celebrity-studded ONE Campaign to United Nations stock-taking on the Millennium Development Goals—the second annual Brookings Blum Roundtable in Aspen, Colo., tackled the subject from a fresh perspective. The roundtable convened preeminent leaders from diverse sectors to explore the role of arguably the most powerful component in global poverty relief: the private sector. Participants discussed entrepreneurship, the risk/return



Ali Mufuruki, of Infotech Investment Group in Tanzania, addresses the Brookings Blum Roundtable in Aspen.

profile on foreign investments, and the social and market value derived from private-sector investments, all in an effort to galvanize the private sector by highlighting the power of market forces to achieve social and economic progress in the world's poorest nations.

Global Economy welcomed distinguished fellow David DeFerranti, former vice president for Latin America of the World Bank, who will lead a major project to respond to the growing need for innovative mechanisms to fund private enterprise, infrastructure, and social investments in the poorest countries. Coinciding with the semiannual meetings of the World Bank and the International Monetary Fund, the Brookings Institution, in partnership with the development banks of France, Japan, and Germany, held a briefing which examined the potential for innovative financial mechanisms to help close the gap between lofty international goals and the reality of tight aid budgets, which featured the Honorable Ngozi

Okonjo Iweala, minister of finance for Nigeria, and a rising star in the global arena.

Senior fellow Carol Graham brought fresh insights to the debate on globalization, poverty, and inequality, by drawing on the economics of happiness. Graham and research fellow Andrew Felton completed a major research project on the welfare effects of inequality in Latin America. They found that the excessive levels of inequality in that region have significant negative effects on the welfare of the poor in the region and positive ones for the rich. In contrast to the United States, where inequality remains a sign of mobility and opportunity for most people, in Latin America it is a sign of persistent disadvantages for the poor and advantages for the rich.

Global Economy also welcomed the newly established Wolfensohn Initiative on Effective Development, which will focus its research and activities on identifying, replicating, and scaling up effective approaches to development. The initiative is currently in its first phase of development, under the leadership of newly appointed Executive Director Linn.

Senior fellow and Harvard scholar Michael Kremer undertook a project aimed at providing reliable evidence concerning the relative effectiveness of investments in water quality, reliable supplies of sufficient water, hygiene education, and basic sanitation in developing countries. This work will help policymakers to prioritize investments aimed at meeting the United Nations Millennium Development Goals.

Finally, while the amount of foreign assistance has increased in recent years, the way it is organized and delivered by the U.S. government has become increas-

ingly fragmented and chaotic. The proliferation of federal agencies engaged in foreign aid has created serious disconnects and inefficiencies in the use of this important tool of U.S. foreign policy. In a bipartisan collaboration with the Center for Strategic and International Studies, Global Economy has convened a wide-ranging group of thought-leaders in foreign aid, from government officials, to operatives in the field, to NGO workers, to help bring coherence to foreign aid. This group will issue a report edited by Brainard in early spring, "Security by Other Means: Foreign Assistance in the National Interest," laying out a unified strategy and recommendations across the whole range of foreign aid programs—humanitarian, strategic, military, economic, and post-crisis reconstruction.

A related policy brief, "Moving Toward Smarter Aid," acknowledged that the Millennium Challenge Corporation got off to a slow start, falling short of its goal to award \$5 billion a year to low-income countries which demonstrate just government, investment in people, and promotion of economic freedom. However, the policy brief authors, visiting fellow Lex Rieffél and James W. Fox, formerly chief economist for Latin America at USAID, wrote that the idea of Millennium Challenge grants is still valid, and urged patience, flexibility, and more enthusiastic support from Congress in order to make the program successful.

These are just some of the practical ideas being advanced by the scholars of the Global Economy and Development Center in its high-visibility efforts to address the challenges of globalization and global poverty. ■

"No One Has More Moral Authority"

From the moment Nelson Mandela stepped from his car in the Brookings Institution's driveway on Massachusetts Avenue, spectators applauded, jostled for position to see him, reached out to touch him.

Many famous people have spoken from the podium in the Falk Auditorium at Brookings—foreign heads of state, cabinet secretaries, presidential candidates, authors, scholars. But none has produced such an outpouring of emotion from the audience as Nelson Mandela did when he appeared here in May.

There were tears in the eyes of some of those spectators. Some brought their children to see Mandela. They knew they were in the presence of a truly great man.

Frail now at age 87, his close-cropped hair nearly all gray, Mandela had to lean on an assistant's arm as he made his way slowly through the crowded corridors and onto the stage in the Falk Auditorium. The audience rose and clapped long and loud when he first appeared in the doorway.

Immediately, Mandela demonstrated his wry sense of humor.

As a pack of photographers crowded around him, the world-famous father of South African independence joked, "It's the first time for me to be photographed." The audience laughed. "I'm not used to it," he jested with a twinkle in his eye.

Brookings Board Chairman John L. Thornton introduced Mandela. There was no need for him to mention that Mandela had been confined to prison for

nearly 30 years for leading the fight against apartheid in South Africa. There was no need for Thornton to recall that Mandela and his followers eventually won that fight, or that Mandela became the first democratically elected president of South Africa, or that Mandela won the Nobel Peace Prize for his efforts.

Thornton did not have to give the details of Mandela's life. Everyone already knew.

And so Thornton introduced him by saying very simply, "I give you the inspiration of Mr. Mandela... There's no person on earth who has the moral authority, who can speak with greater passion, and be more compelling."

Dressed in a colorful African shirt called a "Madiba" as a gentle rebuff of the more formal dress

codes of the onetime European colonial powers, Mandela remained seated when he spoke, in deference to his age and infirmities.

He said he brought "good news" from Africa—the commitment to human rights is broader and deeper there than ever before, and a democratic consensus is taking hold across the continent.

He called for a new recognition of mutual obligations and responsibilities by Western nations and African nations through substantially greater economic assistance from the United States and other developed countries, and adherence by African leaders to "internationally accepted standards of transparency, accountability, and good governance."

Until Africans them-

selves are able to "curb abuses of power," Mandela declared, Africa will not have the peace and stability required to end poverty and find its rightful place in a globalizing world.

Mandela was pleased that President Bush has made a commitment to a new and more performance-based approach to foreign assistance for Africa called the Millennium Challenge Account. He also praised Bush's promises of increased help in preventing and treating HIV/AIDS and in educating African children.

But Mandela did not shy away from criticizing Bush for the war in Iraq.

"Such disagreements are not uncommon among friends," Mandela said. "In fact, they are a mark of strong, candid, and honest

friendships."

The occasion for Mandela's rare trip to America, and his speech at Brookings, was the launching of the Nelson Mandela Legacy Trust, which will raise money for use in South Africa to help children, encourage peace and reconciliation, provide assistance for health and education projects, and train future leaders.

When Mandela finished speaking, he hobbled down from the stage and made his way slowly back to his car, accompanied all the way by applause and shouts of praise and encouragement.

And more tears and accolades from his many admirers. Those who heard him speak at Brookings that May morning will never forget his visit. ■



Brookings Chairman John Thornton greets Nelson Mandela as he arrives to speak on America's aid to Africa.

Governance Studies

The past year has been marked by intense partisanship over foreign policy, Supreme Court nominations, the budget and other substantive national issues. So it could not have been more timely for the Brookings Governance Studies program—which has always examined the means and mechanisms by which democracies around the globe govern themselves—to plan a comprehensive analytic study of the political polarization of America.

After all, as Brookings President Strobe Talbott explained, clarifying the problem of polarized politics and its possible solutions is a fitting project for the Institution.

“We try to accomplish that goal both in what we do and how we do it,” he said. “Our thinking about political polarization guides our research about critical public policy choices and our efforts to ensure that our brand of scholarship maintains the highest standards both of substance and of civility of discourse.”

Under the guidance of Brookings Vice President Pietro Nivola, the approach to the question is comprehensive—with scholars examining every major institution of the U.S. political process—the electoral system, the media, the role of religion, the courts, the Congress, and the executive branch. The project will divide the subject of political polarization into what Nivola calls the five “Cs”: Characteristics, Causes, and Chronology (historical context), as well as Consequences and possible Correctives. The endeavor will also be bi-coastal—involving a partnership with scholars at Stanford University’s Hoover Institution.

Three prominent guest scholars will contribute to the project from the perspective of the “fourth estate”—Jonathan Rauch of the *National Journal*, winner of the 2005 National Magazine Award; *New Republic* Editor Peter Beinart, who is writing a book on the liberal tradition in U.S. foreign policy; and Gregg Easterbrook of the *New Republic*.

In a related effort, Brookings visiting fellow Michael McDonald of George Mason University, in partnership with John Samples at the Cato Institute, will examine the competitiveness of U.S. elections, and explore the polarizing effect of congressional redistricting. The endeavor is a natural sequel to McDonald’s and Brookings senior fellow Thomas E. Mann’s work over the years exploring the flaws in congressional redistricting.

William A. Galston, a prominent political theorist who accepted a senior fellow appointment for 2006 in Governance Studies, will work

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Pietro Nivola, vice president and director of Governance Studies, listens to panelists at a judicial issues forum.





Senior Fellow Sarah A. Binder, flanked by visiting fellow Stuart Taylor (right) and Elliot Minenberg of People for the American Way, considers the balance of independence and accountability in the judicial system at a Judicial Issues Forum.

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process of selecting and confirming nominees for the federal bench. Her analysis has proven particularly timely as the Senate remains embroiled in a showdown over advice and consent rules—another stark manifestation of the partisan rift in American politics.

Thanks to the Knight Foundation, senior fellow Thomas E. Mann and Norm Ornstein of the American Enterprise Institute will team up once again to monitor the implementation of the Help America Vote Act and amendments being considered by Congress. This project will fill a critical niche in the extensive array of organizations and individuals working to improve election administration and ensure that the diverse projects and activities in this policy arena are leveraged on behalf of needed improvements in the voting law's implementation.

Campaign finance reform remained on the Governance Studies radar as scholarship continued to monitor the impact of the McCain-Feingold law, and its interpretation by the courts. *The New Campaign Finance Sourcebook*—edited by Mann, along with nonresident senior fellows Anthony Corrado and Trevor Potter, and University of Virginia School of Law professor Daniel R. Ortiz—offers an updated overview of this controversial subject. The viability of campaign finance regulation over the long haul “depends on whether a party or presidential candidate seizes the opportunity to elevate political reform as a campaign and governing issue,” Mann told the *Christian Science Monitor*.

In the Religion in Public Life project, senior fellow E.J. Dionne, Jr., in collaboration with the Pew

Forum on Religion and Public Life, published four volumes in the Pew Forum Dialogues Series. The next installment, *Is There a Culture War? A Dialogue on Values and American Political Life*, due out in 2006, brings together the voices of scholars and journalists engaged in the religious and policy realms to explore their issues in depth.

The health of a vibrant democracy rests in no small part on the education of its citizens. Thus, the work of Tom Loveless, senior fellow and director of the Brown Center on Education Policy, continues to make a valuable contribution to the Governance Studies program's agenda. The 2005 volume of the *Brookings Papers on Education Policy* examined two decades of major reforms that hold promise for the future of K–12 education in the United States. After several years of assessing charter schools and the concept of school choice, the Center also advanced the final volume of

the National Working Commission on Choice in K–12 Education, *Getting Choice Right: Ensuring Equity and Efficiency in Education Policy*.

Another widely received Brown Center report on math testing raised some tough questions of its own. Loveless reviewed math items on the National Assessment of Educational Progress (NAEP), often called “the nation's report card” because it seeks to measure student performance among the states. The research showed that the test is insufficiently challenging when it comes to arithmetic. The findings cast a disturbing light on recent highly publicized math gains as measured by the NAEP assessment, and have implications for the “No Child Left Behind” law. That sweeping education reform initiative will be up for renewal by the next presidential election and has joined the many unsettled issues that hang in the balance of today's charged political environment. ■

Whether held before a packed house in the Brookings Falk Auditorium, broadcast live on C-SPAN, or hosted at the



U.S. Supreme Court Justice Stephen Breyer speaks at Brookings about the court's interpretation of the Constitution, and the court's relationship with Congress and the executive branch.

ANDY QUALLS



Senior Fellow E.J. Dionne Jr. and journalist Gwen Ifill review the results of a poll on college students and civic engagement.

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Fixing Our Polarized Politics

In the last 40 years, political polarization has increased dramatically. In the 2004 presidential election cycle, the nation's eyes were opened anew to a divided political playing field. How did we get here? What implications will this have on future political issues? And will we be able to fix the mess that is polarization?

William A. Galston, former Clinton White House official and Saul Stern Professor at the School of Public Policy at the University of Maryland, will join the Governance Studies program as senior fellow in 2006. Author of six books and nearly one hundred articles on questions of political and moral philosophy, American politics, and public policy, Galston is tasked with exploring the wide-ranging causes, consequences, and possible correction of polarized politics in a new program initiative: “Red and Blue Nation? Causes, Consequences, and Corrections of America's Polarized Politics.”

The increasing microscope of the media and the rise of new mediums of communication, such as “blogs,” or web logs, have permanently changed the way people understand the news and form their opinions of party politics.

Galston believes that the 24-hour, seven-day-a-week news cycle has changed the way people form their political convictions, giving way to an approach to political party affiliation that creates a hostile and polarized political environment here in Washington, and across the nation.

The new project on partisan polarization will cover every major institution involved in the U.S. political process, including the electoral system, the media,

the faith community, the courts, and Congress.

Through a series of public forums, research papers, and other scholarship, Galston will spearhead several other high-profile projects that look at the core questions of American public philosophy. Among these are how to ensure



Senior Fellow William A. Galston to study red and blue nation.

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equity between generations in an aging society, and how to advance policies that are in the nation's long-term interest in a political environment biased toward short-term gains—an issue Galston feels strongly about.

“Politics is slow work,” he said. “It is the antithesis of instant gratification.”

In a public forum on political polarization, Galston quoted German sociologist Max Weber, who called politics “the strong and slow boring of hard boards.”

“He's right,” Galston said. “I think we need a more patient, farsighted culture than we have, and everything in American culture today tends toward impatience and shortsightedness. That is a deep problem for politics.” ■



James Steinberg, outgoing vice president and director of Foreign Policy Studies, moderates a panel previewing the July G-8 meetings.

Foreign Policy Studies

Demanding policy challenges require complex analysis and solutions. Brookings Foreign Policy scholars, with their firsthand knowledge of policymaking and their expertise on a myriad of regions and issues, were at the forefront of analysis of major foreign policy challenges this past year. They grappled with a multitude of global topics that made headlines, including U.S. goals and strategy in Iraq, continued threats posed by al Qaeda, the specter of a nuclear armed North Korea and Iran, the mending of strained transatlantic relations, the rapid rise of China as a global superpower, and many others.

“We are in one of the most dynamic periods of foreign policy, in which the very questions concerning what the role of the United States in the world is, and what our objectives and strategy should be, are up for grabs and on the front page of the newspapers every day,” said James B. Steinberg, vice president and director of the Foreign Policy Studies program for the past four years.

Foreign Policy scholars analyzed events across the globe and provided policymakers, the public, and the media with timely, informed, and independent analysis and recommendations. They shared their expertise in congressional testimony, press briefings, panel discussions, countless media interviews, online dialogues, op-eds, books, papers, and reports.

Carlos Pascual, former U.S. ambassador to Ukraine and director of the State Department Office of Reconstruction and Stabilization, was appointed to succeed Steinberg in early 2006. Steinberg will become dean of the Lyndon Baines Johnson School of Public Affairs at the University of Texas.

Post-war Iraq continued to dominate the headlines at home and abroad, as that country held its first free election in 52 years, celebrated the first anniversary of the transfer of sovereignty to the Iraqi people, and struggled to achieve a political arrangement for its future government against the backdrop of ongoing conflict. Foreign Policy Studies, on the cutting edge of the policy debate, drew on the expertise of its Saban Center for Middle East Policy, directed by Martin Indyk, former U.S. ambassador to Israel and former assistant secretary of state for Near East affairs.

The Center boasts top analysts Flynt Leverett, Kenneth Pollack, Peter Singer, and Tamara Wittes, who joined Steinberg and senior fellows Ivo Daalder, Michael O’Hanlon, and Phil Gordon in providing analysis and policy recommendations on the situation in Iraq and the broader Middle East.

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STATE DEPARTMENT

Carlos Pascual

Pascual Joins Brookings

Ambassador Carlos Pascual, currently director of the State Department Office of Reconstruction and Stabilization, will join the Brookings Institution as vice president and director of Foreign Policy Studies February 1, 2006.

"The world is at a critical juncture in the conduct of international security policies," Pascual noted. "The nature of power states and the challenges they present have changed completely from the Cold War era."

He was U.S. ambassador to Ukraine from 2000 to 2003, where he helped the government strengthen grassroots democratic initiatives, fight terrorism, and build a strong private sector.

From 1995 to 2000, Pascual was on the White House National Security Council, ultimately as senior director for Russian, Ukrainian, and Eurasian Affairs, where he helped guide U.S. policy during the most important political transformation at the end of the 20th century.

The Saban Center organized numerous groundbreaking panel discussions and conferences and hosted many of the world's leaders, including Jalal Talabani, the new president of Iraq. Talabani's speech at a Brookings event, held a week before his first official meeting with President Bush in Washington, was his first on U.S. soil. The newly elected leader provided enormous insight into the complicated reconstruction process and the need for continued U.S. military assistance in Iraq.

A flagship event for Foreign Policy Studies and for the Saban Center this year was the U.S.-Islamic World Forum, which held its second annual conference in Doha, Qatar, and is a major component of Brookings's Project on U.S. Policy Towards the Islamic World. The forum is the premier convening body for American and Muslim world leaders in the fields of politics, business, media, academia, science, arts, and civil society.

The Doha conference also included a groundbreaking dialogue on U.S.-Islamic cooperation in science and technology. The John D. and Catherine T. MacArthur Foundation and Lawrence Livermore National Laboratory supported a science and technology fellowship at Brookings, designed to help bridge the gap between the natural sciences and the policy community.



Sen. Joseph Biden of Delaware speaks with reporters after delivering his address on a New Compact for Iraq.

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This year's fellow, Michael B. d'Arcy, a physicist, co-wrote a study, "Untapped Potential: U.S. Science and Technology Cooperation with the Islamic World," which led to a policymaker conference in Washington and subsequent discussions in Doha.

The Saban Center also hosted its sixth Daniel Abraham Israeli-Palestinian Workshop in February 2005 at Brookings. Israelis, Palestinians, and Americans engaged in strategic discussions on elections, Gaza disengagement, and negotiations for peace in the Middle East.

Senior fellows Pollack and Leverett, both former officials in the Bush administration, published books on U.S.-Middle East Policy. Pollack's *The Persian Puzzle: Conflict Between Iran and America* looks at the history of the countries' relationship and at the future of U.S. policy toward Iran. Leverett's *Inheriting Syria: Bashar's Trial By Fire* examines Syria's new political role in the Middle East.

O'Hanlon, who holds the Sydney Stein Jr. Chair, continued to spearhead the "Iraq Index" project at Brookings. Launched in 2003 and updated biweekly with data from the U.S. government and other sources, the Index is an in-depth, nonpartisan, comprehensive assessment of rebuilding efforts in Iraq. It tracks progress using several indicators, including statistics on security, democracy-building, and economic transformation. The Index, published on the Brookings website, is consulted widely by journalists, experts, and many others, and appears regularly on the op-ed page of *The New York Times*.

The war in Iraq has raised critical questions about U.S. policy priorities and strategies to deal with terrorism at home and abroad. The Brookings Project on Force and Legitimacy in an Evolving International System, led by Steinberg and Daalder, convened senior-level, bilateral meetings with government officials and

policy experts in Europe, China, Russia, South Asia, and Mexico.

Concerns about homeland security are at the top of the agenda for decision-makers at several levels of government in the United States. Steinberg and O'Hanlon, along with senior fellow Richard Falkenrath, a former deputy homeland security advisor and deputy assistant to President Bush, research fellow Jeremy Shapiro, and d'Arcy, developed strategies for cooperation among local, state, and federal governments and the private sector to improve homeland security.

Transnational threats to U.S. national security also remain a high priority for policymakers. Senior fellow Susan Rice continued her multiyear research project that explores the possible links between poverty in developing countries and threats to U.S. national security, including the spread of infectious diseases, environmental degradation and global jihadi terrorism (see Rice profile, page 11).

In the aftermath of the U.S. military intervention in Iraq, the United States and Europe continued to struggle to mend fences and improve transatlantic relations. The Center on the United States and Europe (CUSE), founded in 2004 and directed by senior fellow Gordon, provided top-notch analysis of the transatlantic relationship and organized high-level dialogue and public debate. Shapiro is director of research, and Omer Taspinar directs the program on Turkey. CUSE also boasts programs on France, Italy, and Eurasia in addition to its broader analysis of global issues important to Europe and U.S.-Europe relations. The Daimler-Chrysler U.S. European Forum on Global Issues, organized by Daalder, provided a valuable venue for senior American and European



Richard Bush, senior fellow and director of Center for Northeast Asian Policy Studies, speaks at the launch of the Brookings China Initiative.

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officials to engage regularly in off-the-record discussions.

In February 2005, on the eve of President Bush's trip to Europe, 60 prominent foreign policy and national security leaders from both sides of the Atlantic, coordinated by CUSE scholars, signed a "Compact Between the United States and Europe." The Compact went beyond the customary calls for transatlantic cooperation and spelled out concrete, specific policy measures for dealing with Iraq, Iran, peace prospects, and democracy in the Middle East, China, the International Criminal Court, and climate change.

"The split that had emerged between the two sides of the Atlantic in recent years was deeply damaging to the interests of both the U.S. and Europe," said CUSE director Gordon. "The Compact is a demonstration that agreements on common policy challenges are both necessary and possible, and that a comprehensive strategy can be forged to deal with the full range of key challenges we face."

One of the greatest foreign policy challenges today and in the future is China, a country whose economic, military, and political power is growing at an unprecedented rate. This year Brookings officially launched the China Initiative, headed by senior fellow Jeffrey Bader, a former senior official in the U.S. government (see Bader profile, page 23).

The initiative, established through the generosity of Brookings Chairman John L. Thornton, explores the dynamics of China's transformation and emergence as a political and economic giant, and the implications for the United States, China, its neighbors, and the world. Senior fellow Jing Huang, an expert on U.S.-China crisis management, civil-military relations, and China's security policy-making, joined a team of Brookings analysts that will expand as the challenge of China grows.

"The rise of China and its impact on the world is the most important geopolitical event of the 21st century," said Thornton, who

is a professor of global leadership at Tsinghua University in Beijing. "With the launch of the China Initiative, Brookings is now poised to establish itself as a key destination for both Chinese and American policymakers seeking to understand China's critically important role in today's world."

Northeast Asia remains a region of particular importance for the United States, with its vibrant economic activity and two complex security challenges: North Korea's nuclear program and the China-Taiwan dispute. 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 Richard Bush, who holds the Michael H. Armacost Chair, CNAPS welcomed five new visiting fellows from China, Hong Kong, Japan, South Korea, and Taiwan. Fellows participated in the Center's 10-month research



Former National Security Advisor Brent Scowcroft at a Brookings presentation on high-level threats.

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Martin S. Indyk, Senior Fellow and director of the Saban Center, Secretary of State Condoleezza Rice, and Haim Saban, founder of the Saban Center, attend the Saban Center's second annual U.S.-Israel dialogue held in Jerusalem.

program, conducted individual and collaborative research, interacted with the U.S. policymaking community, and participated in a rich array of policy seminars, roundtables, and discussions.

CNAPS Director Bush offered his insight into the complex nature of cross-strait relations between China and Taiwan in his newest book, *Untying the Knot: Making Peace in the Taiwan Strait*. The book outlines historical and political issues that combine to make the Taiwan Strait issue so complicated; it also recommends steps to resolve these issues.

In September 2005, when North Korea committed to giving up its nuclear weapons in exchange for energy aid and security assurances, the international community remained cautiously optimistic. Visiting fellow Charles "Jack" Pritchard, former U.S. special envoy for negotiations with

North Korea, was a key source of information and insight into the complex challenge of North Korea. Pritchard spoke on this issue at more than 40 public events and gave 260 media interviews.

Russia continues to play a paramount role in world affairs. Global efforts to combat terrorism, secure weapons of mass destruction, resolve many regional conflicts, and stabilize critical energy resources all require cooperation from Russia and support from its leaders.

Senior fellows Fiona Hill and Clifford Gaddy focused throughout the year on the dynamics of Russia's economic and political development, especially the enormous impact that Russia's energy sector has on its foreign and domestic policymaking. Hill and Gaddy are examining Russia's dependence on oil revenue, its energy relations with key states like China, and Russia's

foreign policy toward neighboring states in Eurasia. In the wake of the Beslan terrorist attack in September 2004, Hill, who was in Russia for a conference, was privy to a spontaneous private briefing with President Vladimir Putin at his official residence outside Moscow. Hill and Gaddy both took part in a follow-up meeting in September 2005 in the Kremlin.

South Asia is characterized both by a daunting set of security challenges and a number of new strategic and economic opportunities. Brookings published *The Idea of Pakistan*, a book by senior fellow Stephen Cohen, which was named outstanding academic title by *Choice* magazine. The book presents a panoramic portrait of this complex country—from its origins as a homeland for Indian Muslims to a military-dominated state that has experienced uneven economic growth, political chaos,

sectarian violence, and several nuclear crises with its much larger neighbor, India.

Cohen coordinated a number of Brookings-wide initiatives on India and South Asia, including collaborations with think tanks in India to produce joint books and conferences. He also organized a series of off-the-record senior-level dialogues designed to help the United States and its allies cooperate to reduce the threat of nuclear conflict in South Asia, and he began a new project on India as a strategic partner of the United States.

Foreign Policy scholars examined a range of 21st-century challenges that transcend traditional boundaries and institutional structures, requiring creative, new solutions.

Senior fellow Roberta Cohen, co-director of the Brookings-Bern Project on Internal Displacement,



Phil Gordon, senior fellow and director of Center on the United States and Europe, speaks at a Brookings panel discussion previewing the annual G-8 summit.

won the prestigious 2005 University of Louisville Grawemeyer Award for Ideas Improving World Order. She shares this award with Francis Deng, former special representative of the United Nations secretary-general on internally displaced persons and former co-director of the project. Deng was succeeded in 2004 by Walter Kälin, of Switzerland, the newly appointed representative of the secretary-general. In awarding this prize to Roberta Cohen and Deng, the judges cited the impact of their ideas in helping to shape more effective international policies on emergencies such as the Darfur crisis in Western Sudan.

Roberta Cohen was also bestowed the 2005 Social Sciences Award by the Washington Academy of Sciences "in recognition of her activity as an observer and analyst of conflicts, her defense of human rights, and her advisory role to national and international institutions for policymaking."

The rapid rise of China and India as economic powerhouses competing with the rest of the world for limited energy resources has pushed energy security to the forefront of global concerns. The program launched a major study to examine energy security strategies in three major consumer countries in greater Asia—China, India, and Japan—as well as energy policymaking in the major producing countries of Saudi Arabia, Iran, Iraq, Qatar, and Russia. The project aims to analyze the implications of these nations' policies for the United States and for the global energy security environment.

In other arenas, senior fellows Ann Florini, O'Hanlon, and Daalder were part of a bipartisan, congressionally mandated U.S. Task Force on the United Nations. Brookings collaborated with the United States Institute for Peace

Following China's Transformation

Jeffrey Bader remembers his first assignment in Beijing as a political officer at the U.S. Embassy.

It was 1981, in the days of tight, stifling Communist rule, long before the rapid economic development, the skyscrapers, the shiny automobiles, the trappings of modern life.

"My first memory of China was the monochromatic dullness of Beijing," Bader said, "the empty stares, the colorless clothes, the blank faces of the people." They were stiff, stilted, afraid, he said.

By the time he returned in 1987, Beijing was "a city transformed," Bader said. The endless flow of jingling bicycles along the boulevards was being replaced by cars. The women wore lipstick and eye makeup and attractive hairstyles. The people felt comfortable conversing with a Westerner.

"There finally were good restaurants where I could enjoy lunch and dinner," Bader said.

Of course, Bader also

remembers the more serious moments in dealing with China during his 27-year diplomatic career.

He was acting director of the State Department's China desk when Chinese officials violently suppressed protest demonstrations in Tiananmen Square in 1989, and he wrote the memo recommending sanctions against the Beijing government.

He was director of the China desk at the time of saber-rattling tensions between Mainland China and Taiwan.

He called the American Embassy in Beijing on June 6, 1989, and instructed officials there to grant political asylum to astrophysicist and dissident leader Fang Lizhi, one of the leaders of the Tiananmen protests.

Bader was the principal planner for the historic trip to the United States of Chinese leader Jiang Zemin. And he was the principal planner for President Clinton's trip to China.

And now he's planning to open a Brookings China Initiative office in Beijing,

headed by a Chinese scholar to interact with Chinese academics, researchers, and government officials.

What does this old China hand see when he looks ahead?

"By the middle of the 21st century, China will be the second most important nation on earth," after the United States, Bader said. "Think of China as a continent, not merely a nation."

Along the coast, he said, China will have the largest middle class in the world. But inland, the "massive weight" of hundreds of millions of peasants could hold back China's growth and prosperity. The social and economic inequities could lead to unrest, he said.

And what about China's relations with the United States?

He envisions the two nations as "friendly com-



Jeffrey Bader, senior fellow and director of the China initiative, speaks at the initiative's launch last fall.

petitors," not enemies.

He said that China is not acting like an imperial power with expansionist ambitions. Rather, he says, China is largely self-absorbed with its own economic growth and internal problems. Still, Bader warns, China and the United States could stumble into conflict if there is a "miscalculation," most likely over Taiwan.

But, for now, Bader said, "It is in the best interest of both countries to engage in a relationship of economic and political cooperation." ■

and other leading public policy organizations to recommend reforms that would strengthen the UN on a number of fronts, including its ability to respond to humanitarian crises and to control the spread of weapons of mass destruction.

Florini also continued her work with the World Economic Forum on the Global Governance Report, an annual assessment of how well the world is progressing toward meeting the Millennium Development Goals agreed upon at the UN in 2000. In addition, Florini co-chaired an international Task

Force on Transparency.

Brookings Environment Scholar David Sandalow convened a number of bipartisan meetings to help policymakers shape innovative solutions to pressing environmental issues, including climate change, oceans governance and agricultural subsidies. In February, as the Kyoto Protocol entered into force without the United States, Brookings hosted Senators Chuck Hagel (R-NE) and John Kerry (D-MA), who offered recommendations to improve climate change policy and diplomacy. Senior Fellow Warwick McKibbin and Visiting Fellow Gregg

Easterbrook of Economic Studies also conducted important research on climate change.

Peter Singer, Brookings National Security fellow, published the widely acclaimed *Children at War*, a book that examines the growing and global use of children as soldiers. An earlier book by Singer, *Corporate Warriors: The Rise of the Privatized Military Industry*, won the American Political Science Association's 2004 Gladys M. Kammerer Award for best political science publication. CNN included Singer in their "2005 New Guard," an annual list of the "next generation of newsmakers." ■

Metropolitan Policy

The Metropolitan Policy program experienced an exceptional year as it continued to influence officials and opinion leaders across the country. The program had a tremendous impact on policy—not just in Washington, but in state capitals, city halls, suburban centers, and the seats of regional governments. Metro scholars gave nearly 200 briefings to state and local officials, as their work directly affected legislation in places ranging from Harrisburg, Pennsylvania, to San Francisco, California.

“The real action is happening in state capitals and city halls,” said Brookings vice president and Metropolitan Policy director Bruce Katz.

Metro is constantly sought after by policymakers, citizens, and the media for its analysis of the trends shaping America, as well as its interpretation of how those trends are best addressed with fact-based policy prescriptions.

Metro pursues a deliberately integrated agenda, knitting together disparate but mutually reinforcing areas of policy into a coherent framework.

“We cannot overestimate the role states play in areas such as metropolitan growth and development,” said Katz. “States decide government jurisdictions, and the authority of those jurisdictions, for everything from growth planning to schools.

“And the tax, spending, and regulatory actions of the states—on everything from transportation to housing to economic development—dramatically shape the economic and physical landscape of cities and metropolitan areas,” he said. “Much of the need is at the state and local level, and many of the best ideas and most relevant innovation is coming from cities and states.”

Taking action requires a clear interpretation of the country’s continuous population and economic shifts. Metro has quickly become the go-to center for this kind of data and analysis. Visiting fellow William Frey, Metro’s top demographer, showed that the “great migration” north by African-Americans had reversed and many black residents are now returning south. And, writing for Metro, university professor David Fasenfest led a report on how the shifting movement of immigrants and people of color made mixed-race neighborhoods the norm in the United States. Fasenfest is associate professor of urban and labor studies at Wayne State University in Detroit.

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Bruce Katz, vice president and director of Metropolitan Policy, briefs members of the U.S. Senate Banking Committee on the impact of Hurricane Katrina on key urban policy areas.

Fellow Alan Berube's report "The Shape of the Curve" found that the number of central cities with a strong middle class has doubled to 29 in the last 20 years—refuting conventional wisdom that cities are populated solely by the poor. In 58 of the 100 largest cities, there is still a struggle to grow or attract middle-class households. Berube's report, which showed how to take on that challenge, was reported in major regional media, and became required reading for students of urban policy.

Meanwhile, in some metro areas, residential and commercial growth is expected to continue at a rapid pace. Accordingly, guest scholar Arthur Nelson produced a report that reframed planning to focus not on typical urban hand-wringing but on preparing for growth. Nelson is a professor and director of urban affairs and planning with the Metropolitan Institute at Virginia Tech.

In the run-up to the 2004 presidential election, Frey examined the political scene and landscape. His analysis showed that the electoral map will shift dramatically by 2030, with major pickups of electors in Sunbelt states and possible major losses in older states such as Pennsylvania and New York. Frey, who also provided a clear view of the rise of the Latino voter, was a key source for media, academics, and decision-makers in the past year.

Metro also was at the forefront of sorting out the issues that determine the growth and health of communities and regions: transportation, land use and planning, economic development, and more.

Federal transportation policy is both costly and behind the times. A year-long series of studies on what it will take to meet the modern-day needs of metro areas was con-



Amy Liu, deputy director of Metropolitan Policy, (left) and Myra Dandridge, staff member of the U.S. Congressional Black Caucus, prepare for a Capitol Hill briefing.

solidated and published in book form this year.

Metro's work was often tailored to local needs. Throughout the country, jurisdictions struggled with the question of how to finance mass transit. Fellow Rob Puentes examined the Washington, D.C., area's mass-transit funding needs, and his analysis and recommendations led to Capitol Hill testimony, new federal legislation, and a plan to develop a dedicated revenue source as recommended. The transportation series also included an examination of mass-transit security. Puentes was a key source for media trying to understand implications of the London subway bombings last summer.

Metro developed analysis and recommendations that guide economic development strategies—with both broadly applicable advice and region-specific assistance. In the report "Space Available: The Realities of Convention Centers as Economic Development

Strategies," Heywood Sanders found that the convention marketplace is declining and not the silver bullet many localities think it is. Sanders—professor of urban studies in the political science department at Trinity University in Texas—showed that most convention and tradeshow business is ailing, raising questions about state and local investments in convention venues. These venues are not generating the kind of local revenues or hotel occupancies they claim. Many cities with convention center projects on the drawing board re-examined their assumptions and plans in the wake of the report.

Another Metro report had examined another popular silver bullet—biotech—and found that it is not a good option for most localities.

There are better answers, and Metro identified some of them. Visiting fellow Chris Leinberger outlined how integrated downtown revitalization has more market suc-

cess and investor appeal. His report, "Turning Around Downtown: Twelve Steps to Revitalization," yielded requests for on-the-ground assistance in many communities.

Metro frequently was called upon to conduct comprehensive analysis and recommendations—in many cases, formulating a full-policy framework. In Pennsylvania, a wide-ranging report covered key factors that must be aligned for healthy growth. That report continued to inform policies and political discourse. Similar work began in several other states, including Maine, Massachusetts, and New Jersey.

In "The Price Is Wrong: Getting the Market Right for Working Families in Philadelphia," Matthew Fellowes, a senior research associate, and Katz showed that lower-income families pay more than others for essentials such as mortgages, insurance, food, transportation, and financial services—a burden that presents a major obstacle to their movement

Katrina's Lessons in Recovery

Last year, just as Asia was beginning to recover from a devastating tsunami, Hurricanes Katrina and Rita struck America's Gulf Coast with deadly force, leaving thousands homeless, temporarily crippling the U.S. refining industry, and devastating the historic city of New Orleans.

Within days, the Brookings community responded professionally and personally, donating time and money; weighing in with analysis and recommendations on the immediate crisis; and examining the deeper and more long-term deficiencies in national infrastructure and governance that Katrina exposed.

Brookings put together an interdisciplinary panel discussion to assess the federal, state, and local response—and identify next steps that might speed the recovery of the region and its people. Pietro Nivola and Tom Mann from Governance Studies surveyed the battered political landscape and assessed the implication for America's ongoing experiment in federalism.

Metropolitan Policy focused on Katrina's assault on New Orleans' most vulnerable residents and neighborhoods, which reinvigorated a dialogue on race and class in America. Bruce Katz, vice president and director of Metropolitan Policy, and Alan Berube argued that the

conversation should focus special attention on alleviating concentrated urban poverty and creating healthy, mixed-income neighborhoods. Amy Liu focused on local recovery and reconstruction, and Katz, Liu, Mark Muro, and Berube issued an important report on the history of geographically concentrated poverty in New Orleans.

Jim Steinberg, Michael O'Hanlon, and Richard Falkenrath from Foreign Policy Studies—a team that could draw on a combination of scholarship and government service in Republican and Democratic administrations—analyzed the hurricane as a test of the United States' post-9/11 homeland

security capability as well as its ability to use the armed forces for coping with natural disasters on the home front.

The event was well-attended and well-covered. It was also webcast so that reporters around the country, including those deployed to the Gulf Coast, might use it for their own coverage. It was also picked up widely by the international media—in fact, Brookings president Strobe Talbott tuned into the broadcast in a hotel room in Helsinki, where he and scholar Ann Florini were participating in a conference on her specialty, global governance.

David Sandalow later testified before Congress on

the relationship between the unusually severe hurricanes and global warming. Ron Haskins looked at the legacy for children in those hard-hit areas.

Looking forward, Brookings will continue to put an emphasis on action as well as analysis. Katz continued to share our expertise on the proper federal response to the long-term recovery of the Gulf Coast.

Finally, members of the Brookings community responded in the way so many Americans did—with personal contributions of money and time. As we go to press, Brookings has contributed more than \$18,000 by donating cash and accrued annual leave. ■

into the middle class. Flawed market knowledge by business, and poor consumer information are at the heart of the problem—and open the door to predators. The report sparked a Philadelphia City Council hearing, where Katz testified. Pennsylvania began working on regulations to curb financial abuses, and the governor appointed a special liaison to the insurance department to discover means of reducing the inflated price people in those neighborhoods pay for auto insurance.

The issues and recommendations contained in the report apply to most U.S. cities. In San Francisco, Mayor Gavin Newsom announced a new zoning ordinance to ban new fringe lenders from locating in the city, and cited Brookings data to make his case.

Another Metro report showed that the low-income housing tax credit may be artificially exacerbating the concentrations of poverty in the United States.

Metro also worked selectively outside the United States—both to

bring back important lessons and to share the successes and failures of the American experience abroad. Metro's collaboration with the London School of Economics (LSE) has generated substantial attention from U.K. policymakers, including adoption of planning principles outlined by Metro program head Katz. Two papers produced by Brookings for the U.K. audience on the importance of healthy, mixed-income neighborhoods resulted in a new pilot program to create mixed-income communities in nine cities. Katz also joined a two-year effort led by LSE to assess the future of global cities. The LSE most recently visited Shanghai in July.

Brookings Greater Washington Research Program (BGW)

The Brookings Greater Washington Research Program (BGW) remained active on issues important to the Institution's hometown. Senior fellow Alice Rivlin, in her role as director of BGW, co-chaired the District's Comprehensive Housing Strategy Task Force. The

task force is due to deliver its final report and recommendations early this year, focusing on how the city can preserve and increase its affordable housing stock. The task force is also devising policies for achieving a Rivlin recommendation that the city grow by 100,000 through retention, growth, and new residents—a goal that was adopted by Washington, D.C.'s mayor.

BGW, with several partners, is in the third year of an initiative to improve primary-healthcare quality and access for low-income residents. The solution pivots on increasing the capacity of community health centers and increasing the degree to which residents visit primary-care providers rather than emergency rooms or going without.

Urban Markets Initiative

The Urban Markets Initiative (UMI) continued to define the field of urban information by discovering new sources of data and developing the tools to share and analyze it. Thanks to funding from

Living Cities, UMI's work will drive both public and private investment in America's cities by building the infrastructure for data-driven decisions.

UMI collaborated with a community of experts from government and public-sector organizations to develop the National Infrastructure for Community Statistics, an Internet-based marketplace to share thousands of data sources. And the UMI held an "Industry Roundtable" on retail and commercial development that brought together business leaders from across the country to identify information gaps in urban areas.

The group funded a series of pilot projects across the country to develop new tools to find and use information, including an effort to incorporate new sources of data into credit scores to demonstrate the creditworthiness of low-income consumers. The new tools were designed to be replicated or scaled to a community's size so that they can become part of the nation's information arsenal. ■

Support for Brookings

Last year was a banner year for Brookings, with a number of high-impact activities leading the Institution's research agenda for 2005.

Our scholars work on topics with both relevance and immediacy—current issues as well as forward-looking concerns. For this reason, Brookings experienced a record level of interest and financial support. Some of the highest-impact projects undertaken in the past year would not have been possible without investments from individuals, corporations, and foundations with a shared commitment to the research agendas of Brookings scholars.

With early support from trustees Frank Pearl and William A. Haseltine, as well as Brookings Council member Herb Kaplan through the Warren Alpert Foundation, Brookings convened several “brainstorming sessions” to lay the groundwork for establishing a health policy initiative. Participants included nationally recognized leaders in health policy, including government officials, physicians, health policy analysts, business executives, and foundation officers, who together explored how Brookings could best contribute to the health policy debate.

The health policy initiative's research agenda will focus on an evaluation of policy measures designed to reduce the rapid growth in health care costs while encouraging the continued development of life-saving technologies and the appropriate use of prevention and behavioral change as a way to maintain a healthy population. Building on the earlier brainstorming sessions, the Economic Studies program initiated a series of Health Policy Forums with distinguished scholars and industry experts to begin exploring these issues in greater depth.

In September 2005, Brookings launched its new Center on Children and Families to conduct research and outreach that will improve understanding of the reasons for poverty, especially among working families, as well as the potential of various policies to improve the life chances of poor children. Directed by Isabel V. Sawhill, Brookings vice president and director of the Economic Studies program, and senior fellow Ron Haskins, the Center includes a partnership with Princeton University and joint publication of the journal *The Future of Children*. The Center's ambitious research agenda would not be possible without generous private support, and funding has already been received from the Annie E. Casey Foundation, the Doris Duke Charitable Foundation, the Ford Foundation, Foundation for Child Development, and the Joyce Foundation, among others.



Linda Steckley, vice president for Development (center) greets Board of Trustees member Bea Welters and Tony Welters at a dinner held in the Reagan Building and International Trade Center.

MARSHALL COHEN



Brookings Board Chairman John L. Thornton and board member Daniel Yergin chat at board function.

Budgeting for National Priorities is another project with significant impact, as Brookings scholars continued to define the national debate on federal fiscal policy. With the publication of *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge*, Sawhill and senior fellow Alice Rivlin, along with several colleagues, have framed the discussion in nonpartisan terms. To buttress this effort, new Brookings trustee Geoffrey T. Boisi is chair-

ing a 10-member committee of corporate advisors that will speak out on these critical fiscal issues to mobilize support in the private sector for a more fiscally responsible budget policy.

The committee established to support the Budgeting for National Priorities project is but one of several advisory groups created to serve other program areas and create stimulating new pathways for leadership involvement with the Institution. Mem-

bers of the advisory committees at Brookings contribute to their selected program both intellectually and financially, and their support plays an important role in advancing our scholars' research agendas. Advisory committee members also enjoy the privileges offered to the Brookings Council, providing them a broader view of the Institution.

According to Cyrus Freidheim, chair of the Trustee Development Committee, "We have learned that

the key to success is providing opportunities for donors to be engaged in a meaningful way with the work of the Institution. Advisory committees have been a major source of new commitments and can be credited with many of our donor increases in fiscal year 2005." Another key reason for this sharp increase in restricted giving has been an increase in the number of personal meetings with staff and scholars for projects and programs. In fact, programmatic sup-

MARSHALL COHEN

port increased 25 percent, from \$28 million to \$35 million, between 2004 and 2005.

Existing programs at Brookings—such as the Saban Center for Middle East Policy, led by Martin Indyk—have already demonstrated the value of involving trustees as well as scholars and friends from outside the Institution in advancing our scholars' work. Our Center on the United States and Europe, under the leadership of senior fellow Phil Gordon, also benefits from an advisory group and from private support. The Center on the United States and Europe launched the Sakip Sabanci International Research Award in partnership with Istanbul's Sabanci University, one of Turkey's strongest academic institutions. Named in honor of the late Sakip Sabanci, a prominent Turkish



Attending a board dinner at the Smithsonian Museum of American History are trustees Bart Friedman (left) and Brian Greenspun, with Myra Greenspun. (Marshall Cohen)

MARSHALL COHEN

Brookings Council

Active participation in the Brookings Council leads to insight, inspiration, and intellectual stimulation. The Council brings together a select group of thoughtful business and community leaders who are actively engaged in the life of the Brookings Institution, and who get a first look at Brookings research on a wide range of contemporary issues.

"Brookings Council members play a crucial role in upholding the Institution's ability to conduct independent, nonpartisan research concerning today's most challenging public policy issues," said

Brookings President Strobe Talbott. "The intellectual and financial contributions and the interactive participation of Council members with Brookings scholars are vital to the formulation and dissemination of Brookings's ideas and publications. It is indeed a two-way relationship."

Council members are more than just donors; they are investors with a shared interest in and commitment to the advancement of independent public policy research. As Brookings's leading benefactors, Council members played a key role last year in strengthening the Institution's ability to fulfill its

critical mission. Membership in the Brookings Council presents excellent opportunities for frank discussions with some of the best public policy minds in the world today.

In 2005, 91 new individuals joined the Council—a 100 percent increase in the number of Council members. Nearly a third made contributions exceeding \$50,000.

"As more and more individuals and corporate representatives experience the richness of Council membership, we expect continued growth in the years ahead," said Linda G. Steckley, Brookings vice president for development.

Individuals and corporations who contribute amounts ranging from

"You are making a difference every day on many of the important issues of our times."

—John Humphrey, a Brookings Council member since 1991.

\$10,000 to \$100,000 or more enjoyed a range of privileges available only to

Council members, which included invitations to a full calendar of Brookings Council events throughout the year at our Washington headquarters and in other cities. Members of the Council attended events in key cities from coast to coast, including New York, Boston, Chicago, San Francisco, Los Angeles, Cleveland and Rochester.

Council members also received copies of Brookings publications, including policy briefs and groundbreaking new books, editorials and other publications by Brookings scholars, such as Talbott's periodic President's Letters on topics of current interest. ■

Investing in Research

CORPORATE GIVING

Brookings is grateful for the financial and intellectual support that our corporate donors provide, and for their invaluable real-world perspectives on a wide range of important issues.

Several companies made especially generous gifts of more than \$100,000 in 2005, and we would like to recognize their extraordinary commitment to the Brookings mission. Benefactors included The Fannie Mae Foundation, DaimlerChrysler, Exxa, ExxonMobil, Pfizer, Reliance Industries, State Farm, and the U.S. Chamber of Commerce. The resources they provided helped our scholars conduct analysis of pressing policy issues that resulted in timely recommendations for policymakers.

Throughout 2005, corporate donors enjoyed frequent opportunities to interact with Brookings scholars and leading policymakers on the major issues facing corporate leaders. Just after President Bush's inaugural, members of the Brookings Council attended a forum in New York to exchange ideas with leading Brookings scholars on the

broad spectrum of domestic and foreign policy challenges facing the administration.

With China's rise broadly affecting the global economy, the Brookings China Initiative is helping business leaders understand its implications. In July, Brookings introduced the initiative's new director, former ambassador Jeffrey Bader, at an informal roundtable discussion of trade, security, and the trilateral relationship among China, Japan, and the United States. In September 2005, the initiative was formally launched with a full day of panel discussions with business leaders and experts on trade and international relations.

The initiative's founder, Brookings Board Chairman John L. Thornton, hosted a lunch for leading corporate donors in March. Thornton shared his experiences dealing with Chinese leaders and discussed some of the key questions arising from China's emergence.

Throughout the year, Corporate Council members took advantage of a rich calendar of other events featuring Brookings's leading experts on economics and foreign policy.

Brookings's experts on international trade gave our corporate donors valuable insights into global developments in 2005. Lael Brainard, the New Century Chair in International Trade and Economics, led a robust discussion of trade issues with Corporate Council members in April. Brainard was recently appointed vice president and director of the new Global Economy and Development Center at Brookings.

At the annual Brookings Trade Forum last year, Brainard and senior fellow Susan Collins focused on issues arising from the offshoring of white-collar jobs to developing countries, including a special session on India that was of particular interest to corporate leaders.

Barry Bosworth, another senior fellow, led a partnership with an Indian economic research organization to produce the India Policy Forum, a conference in New Delhi examining India's economic and political reforms. In February, Bosworth held a briefing for Brookings Council members and the media to launch the publication of the papers and share some conclusions from the conference.

Competition for energy resources is one key issue arising from explosive growth in China and India, and our corporate donors had opportunities to talk with Brookings scholars about their research in progress. Senior fellow Fiona Hill spoke in December on oil, China, and Russia's revival—which she also covered in published works during the year, building on her path-breaking book, *The Siberian Curse*.

Brookings's corporate donors had access to our scholars' work on domestic issues as well. Economists Alice Rivlin, senior fellow, and Isabel V. Sawhill, vice president and director of the Economic Studies program, led a panel discussion in April about alternatives for balancing the federal budget, and scholar Robert Litan led a conversation on the challenges facing the U.S. economy.

Corporate donors also participated in a series of dialogues about the most important health-care issues facing policymakers and business leaders grappling with skyrocketing costs and increasing demand.

In all of these areas, Brookings scholars are conducting rigorous analysis and developing practical policy solutions. The meetings, roundtables, briefings, and panels that they held in 2005 brought these recommendations to a corporate audience in settings that encouraged frank discussion of the issues.

FOUNDATION GIVING

Private foundations made major investments in Brookings in 2005, providing crucial support for research projects across all of our programs. We are grateful to each of our foundation donors for the resources they provided to the Institution. Four foundations that committed major funding for Brookings research in 2005 are highlighted here.

The Charles Stewart Mott Foundation made important contributions to the Economic Studies program. The Mott Foundation renewed its support for the Center on Children and Families, which grew out of the Brookings Welfare Reform and Beyond Initiative. Grants to the Center enabled Brookings to expand its efforts to investigate and analyze new policy options to improve the lives of low-income families and their children.

The foundation was also a major supporter of the Budgeting for National Priorities project, which is devising a range of policy alternatives to tackle the federal budget deficit. Mott has also made substantial contributions to advance Brookings's work on metropolitan growth trends.

The **John S. and James L. Knight Foundation** has generously funded a project that will examine and monitor the implementation of the Help America Vote Act (HAVA) and suggest proposals for improving the administration of elections. Knight's

commitment to Brookings enables senior fellow Thomas Mann to collaborate with Norman Ornstein at the American Enterprise Institute to interject the best scholarly research in the policy debate in Washington.

At a time when political polarization dominates the nation's capital, Brookings and AEI are partnering to ground the debate over election reform in rigorous, analytical scholarship and broadly based consultation and deliberation. The critical support of foundations such as Knight makes this kind of nonpartisan effort possible.

The **William and Flora Hewlett Foundation** gave Brookings the largest single foundation award we received last year. This two-year grant is supporting major multidisciplinary projects in the Foreign Policy Studies program and the Global Economy and Development Center.

With Hewlett's support, our scholars are assessing the effectiveness of current systems and structures that affect global welfare—particularly those that shape international aid, economics, and security programs and cooperation—and recommending improvements for the future. The Institution is grateful for this important, forward-looking investment in our work.

The Brookings Metropolitan Policy program received significant support from the **George Gund Foundation** in 2005, which provided multiyear funding. The Gund Foundation has been a true partner for the Metro program over many years, helping Program Director Bruce Katz shape a metropolitan research and policy agenda that integrates everything from smart growth, the environment, and working families to regional economic development and the challenges facing older suburbs. Brookings looks forward to continued collaboration with the Gund Foundation in years to come. ■

philanthropist, the award and accompanying lecture are designed to promote new ideas and original research relevant to Turkish studies. According to Gordon, "This research prize will encourage more serious thinking about Turkey, which is hugely important not only for Turkey but for Europe, the United States, and the rest of the world."

In recognition of Brookings's increasing global reach and impact, we have established an International Advisory Council (IAC). The IAC provides guidance as Brookings works to strengthen our international programs and increase our ability to inform the American public and Washington policymakers about developments and perceptions in key parts of the world. Led by new Brookings trustee Antoine van Agtmael, pres-

ident and chief investment officer of Emerging Markets Management, LLC, the IAC consists of a select group of distinguished international figures, primarily from the private sector. Members will help develop Brookings's international activities and foreign partnerships by providing financial support, advice, and networking contacts. Members will also help establish constituencies for Brookings work in their home countries and regions. In the IAC's formative period, a number of Brookings scholars, friends, and trustees have been instrumental in opening doors for Brookings around the world. The IAC will convene in May 2006 for an inaugural two-day meeting in Washington.

Also on the international front, the China Initiative was established in 2004–05 thanks to a

SUPPORT FOR BROOKINGS

Welcoming New Leaders

The Brookings Board of Trustees is composed of distinguished business executives, academics, former government officials, and community leaders. Trustees provide governance of the Institution, approve the fields of scholarly investigation, and safeguard the independence of the Institution's work. We are pleased to welcome seven new trustees to the leadership of the Institution.

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Trustees Larry Thompson and Cyrus Freidheim attend dinner at the Reagan Building and International Trade Center.

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U.S. Sen. Chuck Hagel of Nebraska addresses the Board of Trustees.

STEPHEN BOTANO

Investing in the Future

PLANNED GIVING

The Brookings Institution traces its roots to 1916, when a group of business leaders and academics launched the Institute for Government Research as the first private organization devoted to analyzing public policy issues at the national level. Forty-two donors joined founder Robert S. Brookings to pledge their financial assistance, establishing from the outset a tradition of individual philanthropic support for independent, nonpartisan research.

A key volunteer leader for nearly half of the Institution's 90-year life span has been Louis W. Cabot. He served Brookings for more than

40 years, as trustee from 1962 to 1993—including six years as chairman, from 1986 to 1992—and as an honorary trustee since 1993.

"I've put a tremendous amount of time and energy into its welfare, and I'm proud of the result," Cabot said. "Brookings is now able to go down through the ages, like a great university, as the legacy created by the Brookings family for all mankind. I am not exaggerating. That's what Brookings now is, and the name 'Brookings' will always convey that meaning, all over the world."

Louis Cabot has extended the Brookings leadership tradition of service and philanthropy as a role model for future

generations. By making his own long-term charitable plans for Brookings with a generous bequest intention, Cabot is also following his family tradition of generosity.

His parents, Thomas D. and Virginia W. Cabot, established the Cabot Family Chair at Brookings in 1991, during their son's tenure as board chairman. The Cabot Family Chair is held by a senior fellow in a core research area at the discretion of the Institution's president. The chair is currently held by Isabel V. Sawhill, Brookings vice president and director of the Economic Studies program.

Louis Cabot's four decades of involvement with Brookings have given him a unique van-

tage point for recognizing the importance of the Institution's long-range fiscal stability.

Brookings recognizes those forward-thinking individuals who take the long view that Brookings's excellence must be guaranteed well into the future. Brookings continues to rely on the generosity of friends such as Louis Cabot and others who are dedicated to the long-term health of independent, nonpartisan public policy research.

As we approach the creation of a new Global Economy and Development Center. This new center is led by Vice President and Director Lael Brainard, who holds the New Century Chair in International Trade and Economics, which was endowed by Toyota in 1996. The center will serve as an incubator for ideas that matter, focusing on both the opportunities and the risks associated with the global economy.

major gift from Brookings Board Chairman John L. Thornton. The initiative welcomed its first director, Jeffrey Bader, a former ambassador and senior official at the State Department, National Security Council, and the Office of the U.S. Trade Representative, in April 2005. To publicly mark its establishment, the China Initiative hosted a conference on China's emergence and its impact on both the United States and the Asia-Pacific Region on September 20.

Brookings also announced the creation of a new Global Economy and Development Center. This new center is led by Vice President and Director Lael Brainard, who holds the New Century Chair in International Trade and Economics, which was endowed by Toyota in 1996. The center will serve as an incubator for ideas that matter, focusing on both the opportunities and the risks associated with the global economy.

The Global Economy and Development Center integrates a variety of existing and new research projects under its umbrella, and is an excellent example of how private contributions can facilitate Brookings's research agenda. Our work on the global economy and development has already received generous support from Richard C. Blum, chairman of Blum Capital Partners, LP; Bernard Schwartz, chairman of the board and CEO of Loral Space & Communications, Ltd.; the William and Flora Hewlett Foundation; the Alfred P. Sloan Foundation; the Ewing Marion Kauffman Foundation; and the GE Foundation. These contributions provided the resources the Center needs to develop practical ideas for understanding U.S. competitiveness in the global economy and capitaliz-



Trustee Louis W. Cabot and U.S. Sen. Bill Frist of Tennessee listen to board presentation.

STEPHEN BOTFANO



Board of Trustees member Kenneth Jacobs attends a board dinner held at the State Department.

MARSHALL COHEN

poverty sponsored by former World Bank President James D. Wolfensohn, a Brookings trustee, who will be basing his development-related philanthropic work at the Institution. The Wolfensohn Initiative, created with an initial contribution in 2005, is in the first phase of development and will support effective solutions to the challenges of global development.

With so many Council members and trustees engaged with Brookings via advisory committees and substantive programmatic involvement, 2006 promises to be another important year for the Institution. As we combine Brookings's intellectual resources with the sophisticated thinking and investment capacity of our generous benefactors, Brookings will continue to thrive as America's premier think tank. ■

ing on the opportunities presented by globalization in the areas of international trade and finance, economic development, key emerging markets, and comparative economics.

The Global Economy and Development Center will also provide an institutional home for an initiative on global

Investment in Ideas

SCHWARTZ CHAIR

Bernard L. Schwartz, chairman of the board and chief executive officer of Loral Space & Communications, is an optimist. Although Schwartz is concerned that even policymakers have fallen prey to the notion that the United States is better off preparing to be overtaken or surpassed by China and other emerging economies, he has also sought opportunities to demystify the issues—and define America's strengths instead of its weaknesses.

Schwartz's belief in U.S. competitiveness and his commitment to promoting effective channels for guiding globalization policy led him to establish the Bernard L. Schwartz Chair in International Economics at the Brookings Institution in 2005.

This gift allowed Brookings to begin recruiting a senior scholar who will conduct policy research on globalization and international economic issues and provide guidance to policymakers on these issues.

The Schwartz Chair will tackle some of the hardest questions in international economics, including how to address trade, technology, intellectual property rights, and a changing relationship between developed and developing countries. The scholar appointed to this prestigious chair will address the multifaceted dimensions of globalization.

Schwartz, most inter-

ested in results, chose to invest in Brookings because of the Institution's convening power and its consistent track record as the most widely cited Washington think tank. Brookings's independent and nonpartisan research also appealed to Schwartz.

"I used to invest in political parties," Schwartz said. "Now, I'm investing in ideas." Brookings is well-positioned to advance those ideas and quickly make a positive contribution to policy discussions about U.S. competitiveness in the global marketplace.

"I'm very pleased to support the Brookings Institution as it broadens its focus on the global economy," said Schwartz, adding that globalization has raised new issues for the United States, organizations such as the International Monetary Fund and World Bank, corporations, non-governmental organizations, as well as every citizen of the planet.

"The time is now to reach a deeper level of understanding about the changing nature of the challenges we face," he said.

Brookings Vice President Lael Brainard—who leads work in this area as the director of the Global Economy and Development Center—said the new chair will help broaden our ongoing work in this arena and further address the policy dilemmas of an increasingly integrated and politically complicated global economy.

"Mr. Schwartz's generosity provides the means and perfect complement



Bernard Schwartz

PHOTO COURTESY OF LORAL SPACE & COMMUNICATIONS

for our continued growth in this discipline," she said.

Brookings President Strobe Talbott said the support from Schwartz will allow Brookings to be in the forefront of efforts to study and improve standards of living, competitiveness, and global governance, in a cross-disciplinary approach to research and policy development.

"Bernard Schwartz has devoted his life to investing in ideas that matter," Talbott said. "We're delighted to have his trust and counsel as we unravel the consequences of globalization for our nation and the world."

Over the years, Schwartz has been recognized for his views and counsel on matters ranging from economic growth and industrial policy to technology and national security, which he has provided through speeches, white papers, and testimony to private research institutions, educational groups, and congressional committees. The Bernard L. Schwartz Chair in International Economics at Brookings is an extension of Schwartz's role as a leader in driving public discourse on critical issues facing U.S. policymakers. ■

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Brookings Institution Press

One of the most important and successful titles from the Brookings Institution Press during the past year was Flynt Leverett's *Inheriting Syria: Bashar's Trial by Fire*. Leverett's analysis of Syria under the leadership of Bashar al-Assad (who succeeded his father, the long-time ruler, Hafiz al-Assad), and of Syria's complex relationship with the United States, was widely lauded. The *Washington Post Book World* called the book "essential for understanding a complicated country and the politics of the entire Middle East."



Leverett was interviewed about the book on media outlets as diverse as National Public Radio and "The Daily Show with Jon Stewart." Now a senior fellow in the Saban Center for Middle East Policy, Leverett was senior director for the Middle East Initiative at the National Security Council, so he has an insider's understanding of the topic. More than 5,000 copies of *Inheriting Syria* were sold, a large number for a volume from an academic press. It is an outstanding example of Brookings books—authoritative, ahead of the curve, critically acclaimed, and accessible beyond the Beltway.

Another such book was *Engaging India* by Brookings President Strobe Talbot, in which the former Deputy Secretary of State recounts his personal role in preventing a nuclear standoff between India and Pakistan in 1998 from escalating into a war in South Asia.

Richard Haass, President of the Council on Foreign Relations, called the book "candid, fair, and

authoritative." *Engaging India* was named a 2005 Kiriya Prize Notable Book. The Kiriya Prizes recognize outstanding books about the Pacific Rim and South Asia that encourage mutual understanding of the people and nations of the vast and culturally diverse region.

Led by Vice President and Director Robert Faherty, the Brookings Institution Press publishes about fifty new books a year, covering a wide range of issues. Their audience includes policymakers, journalists and analysts, scholars and their students, and a well-informed general readership.

The Brookings Institution Press publishes a number of volumes by outside

experts. One of the most popular was *Democracy at Risk: How Political Choices Undermine Citizen Participation, and What We Can Do About It*. Princeton University's Steven Macedo led a roster of political scientists enlisted by the American Political Science Association to investigate the state of civic engagement in America and to offer recommendations for improving it. Macedo's co-authors included: Harvard's Robert Putnam, who helped pave the way for such analysis with his book *Bowling Alone*; former American Political Science Association President Margaret Levi; longtime Brookings author Jeffrey Berry, who wrote *A Voice for Nonprofits*; and William Galston, a new Brookings senior fellow in Governance Studies.

Democracy at Risk was introduced at the annual APSA convention, selling in large numbers, and attracting nearly 300 attendees to a panel discussion of the volume.

The high quality of Brookings

books was recognized by a number of prestigious awards:

- Roberta Cohen and Francis Deng—authors of *Masses in Flight* and *The Forsaken People*—received the prestigious Grawemeyer Award for Ideas Improving World Order, for their development of guidelines on a protection and aid system for internally displaced people.

- Economic Studies scholars Jack Triplett and Barry Bosworth won the Harry Freeman Award for their book *Productivity in the U.S. Services Sector*. The Freeman Award honors exceptional contributions to knowledge of the U.S. service economy.

- Barry Rabe's *Statehouse and Greenhouse: The Emerging Politics of American Climate Change Policy* was awarded the Lynton Keith Caldwell Prize as the best book on environmental politics and policy published over a three-year span.

- Michael Barzelay and Colin Campbell won the Louis Brownlow Book Award, the top literary prize in public administration, from the National Academy of Public Administration for their Brookings book *Preparing for the Future: Strategic Planning in the U.S. Air Force*.

- *Choice* magazine named *Agenda for the Nation* an Outstanding Academic Title.

The Brookings Institution Press also continues to publish several scholarly journals. A recent addition to the list is *The Future of Children*, jointly produced by the Brookings Center on Children and Families and Princeton University's Woodrow Wilson School of Public Affairs. The biannual publication is

devoted to improving public policy for America's children.

The Press worked with the Brookings Metropolitan Policy program to produce a number of important new books, several of which are in the James A. Johnson Metro Series. For example, Metropolitan Policy scholars Bruce Katz and Rob Puentes edited *Taking the High Road: A Metropolitan Agenda for Transportation Reform*, examining the most pressing transportation challenges facing American cities,



suburbs, and metropolitan areas. On the same topic, the Press published *Still Stuck in Traffic* by senior fellow Anthony Downs, a timely follow-up to his landmark 1992 book *Stuck in Traffic: Coping with Peak-Hour Congestion*.

Policymakers and scholars investigating America's expanding nonprofit sector have found the Brookings Institution Press to be an essential resource. One reason is the work of Paul Light, a nonresident senior fellow in Governance Studies. Light has produced much of the recent landmark research on nonprofits, most recently with *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It*.

The Press plays a key role in achieving the Brookings Institution's goal of producing and disseminating important research and analysis that meets exacting standards of review, informs public debate, and encourages innovative thinking about public policy.

Even the most insightful and original research will not make a mark if nobody knows about it. The Brookings Institution Press ensures that in-depth, reliable, and nonpartisan research reaches the people who need it. ■

Center for Executive Education

With large-scale retirements of the oldest baby boomers threatening a significant brain drain from the ranks of senior private- and public-sector executives, the Brookings Center for Executive Education (BCEE) dedicated its resources to the critical task of training the next generation of leaders.

Headed by Senior Director William "Terry" Goodwin, BCEE delivered high-quality educational seminars to more than 2,000 participants this past year in support of Brookings's mission to improve the performance and the quality of U.S. public policies and international relations. Members of Congress, ambassadors, astronomers, scientists, and, of course, top executives addressed BCEE seminars on a wide range of topics.

BCEE programs explore subject areas such as public leadership; science and technology policy; national security policy; transatlantic relations; innovative business practices; legislative policy development; various tort reform issues, such as punitive damages, construction defects litigation, and toxic torts; and strategic visioning and planning. BCEE activities fall into five basic categories:

- Open enrollment programs.
- Custom programs sponsored by and designed for agencies, associations, and private companies.
- Fellowship programs that involve long-term, in-depth study of an agency, institution, or issue.
- Grant-sponsored programs for targeted audiences.
- Strategic assessment for select government agencies.

BCEE also recruits scholars and practitioners from Brookings, other Washington institutions, and many universities to help corporate and government executives

gain the competencies of executive leadership, public policy development and implementation, and governmental operations.

The past year's guest roster included Reps. Henry Waxman, John Conyers, David Price, Ellen Tauscher, Jeff Flake, and Mark Souder, of the United States House of Representatives; Dr. James Battey, chair of the National Institutes of Health Stem Cell Task Force; astronomer Adam Riess; actor/activist Richard Dreyfuss; Alma Powell; German Ambassador Wolfgang Ischinger; General Anthony Zinni; Vice Admiral Thad Allen; Zbigniew Brzezinski; and top executives from Nextel, United Health Care, Sodexo USA, AES Corp, Coventry Health Care, and Gannett Broadcasting; as well as John Castellani, president of the Business Roundtable.

BCEE's flagship five-day open enrollment program, Executive Leadership in a Changing Environment, developed and facilitated by Mary Ellen Joyce, BCEE's director of leadership programs, is specialized for government employees at the GS-15 and Senior Executive Service (SES) levels. In a retreat atmosphere, participants explore their personal leadership values and reconnect to the foundations of public service. The Office of Personnel Management has recognized this program as a means to fulfill half of the interagency educational requirements for the SES candidate development program.

Some organizations find open enrollment programs to be too general to serve the unique, industry-specific needs of their executives. In response to this concern, BCEE has developed custom programs for government agencies such as the Internal Revenue Service, Centers for Disease Control, the Department of Health and

Human Services, and the Defense Leadership and Management Program (DLAMP) of the Department of Defense, as well as for such organizations as the American Council of Engineering Companies, the Credit Union Executive Society, and State Farm Insurance Company.

BCEE's Legis and Congressional Fellows program is designed to provide executives with a first-hand perspective on the processes and politics of Congress, developing leaders who acquire an in-depth knowledge of the legislative



U.S. Rep. Jeff Flake of Arizona.

process. Each fellow works a full-time assignment (for seven or 12 months) on the staff of a member of Congress or a congressional committee in Washington. During the past year, BCEE Legis Fellows were placed in the offices of 12 U.S. senators—including Hillary Clinton, Barack Obama, Joseph Lieberman, Harry Reid, Ted Kennedy, and Barbara Boxer—as well as in the offices of many House members and on committee staffs.

Former legis Fellow William Harris embodies the typical Legis experience, calling his fellowship in the office of Rep. David Price "marvelously beneficial" as it gave him valuable insight into how Congress works to bring back to his regular job with the Marine Corps system command.

Peter Schoettle, BCEE's director of policy programs, provides an extensive orientation program, including sessions on the legislative process and attributes of an effective congressional staffer; assistance in locating an assignment on Capitol Hill; and ongoing guidance throughout the fellowship. The Legis Fellows also have access to Brookings's unique resources, including scholars, seminars, briefings, and publications.

BCEE's International Visiting Fellows program enables mid- to senior-level managers from companies headquartered around the globe to conduct in-depth research in Washington on a broad array of topics, including international technology transfer, broadband policy, regulatory policy, terrorism insurance, trade, and U.S. economic policy. Fellows stay for one to two years, networking, attending seminars, using Brookings's research facilities, and sharpening their skills in English.

BCEE scholars also work directly with government agencies to provide innovative, strategic assessments of problem areas in government.

BCEE Senior Advisor Al Hyde recently developed the first-ever integrated mission strategy for the "wildland" fire community, which standardized the emergency response capabilities of the five federal agencies responsible for fire management. This effort produced a common vision and a long-term strategic plan for agencies that had previously lacked the tools neces-

Blogging at Brookings

This was not your grandfather's Brookings forum.

Exploring the role of "blogs" in the 2004 presidential election, the Brookings Institution took a unique and timely approach to addressing the fact that this election once and for all made it obvious that blogs have become a major factor in politics—and in virtually every other area of our lives.

Blogs—web-based logs, for those of you accustomed to traditional media—are Internet sites for the exchange of freewheeling comments and responses.

Blogs gave the anti-John Kerry Swift-boat crews a national audience. Blogs enabled Howard Dean, a little-known Vermont governor, to raise tens of millions of dollars for a presidential campaign. Blogs contributed to the downfall of CBS News icon Dan Rather.

And there was serious speculation that traditional journalists—the so-called mainstream media, or

MSM—would soon be made obsolete by the rise of the bloggers.

So, naturally, Brookings decided to explore this phenomenon at a forum called "The Impact of the New Media: A Live, Inter@ctive Discussion and Webcast." But the minute you walked into the Falk auditorium that morning in March, you knew you were attending a forum like none other ever staged at Brookings.

The moderator—newspaper columnist, TV commentator, and Brookings senior fellow E.J. Dionne—had a laptop computer in front of him to receive e-mails from around the country during the forum.

A giant video screen covered one wall, displaying comments from five designated bloggers, liberal and conservative, who were following the live webcast of the event on their computers and sending their oftentart critiques in real time.

At least 800 people across the United States and around the world watched the live webcast of the forum on their com-

puter screens, five times more than crowded into the Brookings auditorium.

And one of the panelists was a blogger nicknamed "Wonkette," who described herself as "a proud parasite, a media vampire."

The forum was just minutes old when an e-mail arrived on moderator Dionne's laptop from a university student watching the webcast in Wales.

"Do you believe that the Internet and new communications systems helped or hindered the support of the American people for the war in Iraq?" the e-mailer asked. And the panel was launched into a lively and informative discussion of the impact of bloggers and the Internet on politics and public policy.

Andrew Sullivan, both a columnist for old-fashioned magazines and an Internet blogger, proclaimed that the next generation of journalists "are people who are writing their own blogs, 21-year-olds who will be noticed by future editors or major magazines as having distinctive voices."

But if anybody with access to the Internet is considered a journalist, not requiring credentials or a press pass, Ellen Ratner of the Talk Radio News Service wondered, "Who do you allow access to the White House...to ask questions? Where do you begin to draw the line?"

Jack Shafer of the online publication Slate said the widespread blog phenomenon "allows hundreds and thousands of people to analyze data, to double-check it, to find weaknesses in arguments, and then communicate in real time."

Jodie Allen, a former journalist, now with the Pew Research Center for People and the Press, forecast that the distinctions between new Internet journalists and old-fashioned print and broadcast journalists are disappearing.

Oh, about the Wonkette. She is Ana Marie Cox, a popular blogger, who told the conference, "Blogging is becoming a traditional media...more and more like the mainstream media in that it's also pack-oriented."

So it went for nearly two hours—wild, whimsical, full of insights, fun, serious, unstructured, interactive, participatory...and not able to reach any real conclusions. In other words, the forum on blogs was very much like blogs themselves.

Perhaps the closest thing to a conclusive appraisal of the blogosphere came from Sullivan.

"It's an amazing educational tool," he said. "And the reason it's educational for most people is that... the human mind works better when it's listening to a conversation than when it's sitting down being lectured to. And reading a blog and going to information when you're actively seeking it out, you learn better."

Not the last word on blogs, for sure. But, for Brookings, the forum was a first effort to examine and understand a phenomenon that has changed virtually every aspect of our lives.

No doubt, we will re-examine it again and again in the future. ■

sary for successful collaboration, while linking these results to budget realities. The final product was endorsed by the National Association of State Foresters as well as all the participating agencies.

Judicial Education Program

U.S. business leaders have been frustrated by the widening disconnect between the nation's civil justice system and the people it serves. The Brookings Institution continues to play an important role in improving the efficiency

and accountability of this system by providing essential training for state judges through the Judicial Education Program (JEP), produced in partnership with the AEI-Brookings Joint Center for Regulatory Studies.

JEP seminars offer insights into important concepts in the business world—economics, finance, and accounting—which allow judges to better understand the nature of the disputes that come before them. The seminars are supported by grants and donations to the Joint Center, which enables JEP to

offer these "outside-the-box" educational programs at minimal financial cost to the judges.

JEP's flagship course—Economics Institute for Judges—is a two-week residential program held at the Brookings Institution. Robert E. Litan, senior fellow in Economic Studies, teaches approximately 20 percent of the Economics Institute. Other Brookings scholars—Robert W. Crandall, Kenneth M. Pollack, Bill Gale, Clifford Winston, and Susan Collins—are regular contributors.

JEP also offers symposia on

timely legal matters and public policy issues. For example, more than 150 judges attended a symposium on "Critical Issues in Toxic Torts" at Georgetown University Law Center in April 2005. Almost 600 judges have participated in at least one JEP event since its inception at Brookings in October 2003.

Henry N. Butler, director of JEP, is a lawyer and economist who brings 16 years of experience directing similar programs at George Mason University, the University of Kansas, and Chapman University. ■

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2005 and 2004 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2005 TOTAL	2004 TOTAL
OPERATING REVENUES					
Investment return designated for operations	\$10,653			\$10,653	\$10,503
Grants and contracts	1,259	\$27,445		28,704	26,787
Contributions	3,194	113		3,307	3,651
Conferences	4,015			4,015	3,132
Brookings Press	2,502			2,502	2,765
Information Technology Services	38			38	55
Interest and dividends	46			46	7
Rental income, net	148			148	61
Visiting scholars	329			329	375
Other income	42			42	358
Net assets released from restrictions-					
Grants and contracts	19,661	(19,661)		0	0
Total Operating Revenue	41,887	7,897		49,784	47,694
OPERATING EXPENSES					
Operating programs					
Economic Studies	6,949			6,949	5,994
Foreign Policy Studies	8,802			8,802	7,157
Governance Studies	1,810			1,810	4,283
Metropolitan Policy Program	4,312			4,312	4,434
Other research	1,368			1,368	771
Center for Executive Education	4,682			4,682	4,010
Brookings Press	3,088			3,088	3,337
Communications	891			891	989
Total Operating Programs	31,902			31,902	30,975
Supporting services:					
Management and General					
Information Technology Services	2,614			2,614	2,156
Administration	4,283			4,283	3,761
Interest expense	58			58	111
Post-retirement benefits	172			172	746
Total management and general	7,127			7,127	6,774
Development	2,191			2,191	1,927
Total Operating Expenses	41,220			41,220	39,676
Operating revenues over operating expenses	667	7,897		8,564	8,018
NON-OPERATING ACTIVITIES					
Investment return in excess of amounts designated for operations					
Realized gain (loss) on sale of investments	7,135			7,135	9,100
Unrealized gain (loss) from investments	11,598			11,598	21,203
Interest and dividends, net	3,103			3,103	1,855
Investment income allocation	(10,653)			(10,653)	(10,503)
Contributions-Permanent Endowment			\$1,788	1,788	1,669
Change in net assets from non-operating activities	11,183		1,788	12,971	23,324
INCREASE (DECREASE) IN NET ASSETS	11,850	7,897	1,788	21,535	31,342
Net assets at the Beginning of the Year	175,094	26,646	46,464	248,204	216,862
Net assets at the End of the Year	\$186,944	\$34,543	\$48,252	\$269,739	\$248,204

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2005 and 2004 (in thousands)

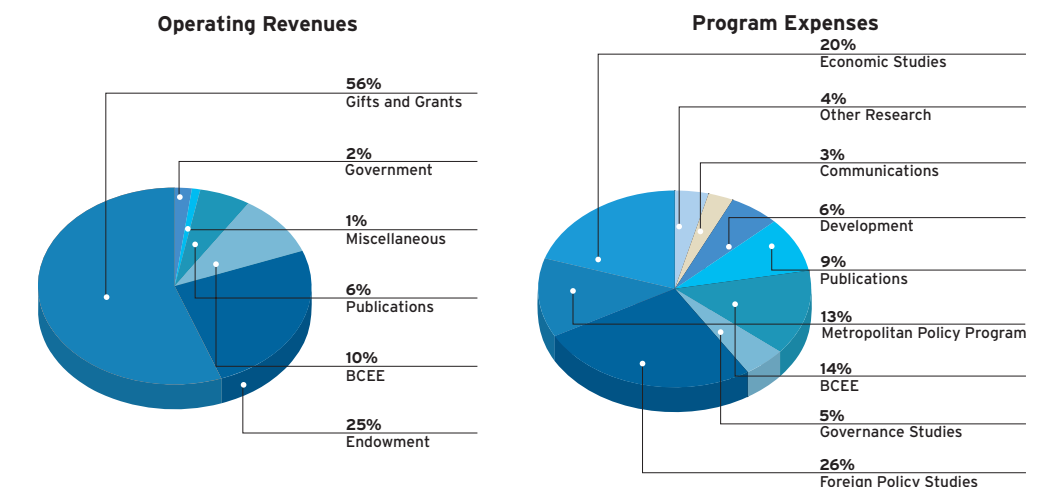
	2005	2004
ASSETS		
Cash and cash equivalents	\$7,689	\$1,787
Accounts receivable	2,520	1,416
Grants and contracts receivable	23,368	20,758
Pledges receivable	1,320	1,610
Accrued interest and dividends	477	103
Inventory	634	817
Investments, at fair value	231,927	219,286
Land, buildings and equipment-net	11,968	11,999
Other assets	305	337
TOTAL ASSETS	280,208	258,113
LIABILITIES		
Accounts payable and accrued expenses	3,088	2,312
Accrued compensated leave	1,614	1,478
Accrued post-retirement benefits	4,543	4,374
Note payable	650	1,050
Deferred revenue	574	695
TOTAL LIABILITIES	10,469	9,909
NET ASSETS		
Unrestricted	186,944	175,094
Temporarily restricted	34,543	26,646
Permanently restricted	48,252	46,464
TOTAL NET ASSETS	269,739	248,204
TOTAL LIABILITIES AND NET ASSETS	\$280,208	\$258,113

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. Certain reclassifications of prior year balances have been made to conform to the current year presentation.

A copy of the Institution's audited financial statements is available by request.



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