FROM THE PRESIDENT

People who know the Milken Institute is small compared to most think tanks are often amazed by how much we accomplish. While some of our work is public – from the publication of this magazine to our annual Global Conference – a great deal of what we do goes on without fanfare.

Since the mission of the Institute is "to improve the lives and economic conditions of diverse populations in the U.S. and around the world," our behind-the-scenes efforts focus on economic development. To this end, we partner with a variety of organizations with complementary goals, from corporations trying to be good public citizens to nonprofits with explicit missions ranging from regulatory reform to the securitization of small business loans.

Here is a sampling:

- We're working with the Ford Foundation to increase the flow of capital to overlooked and underappreciated parts of the U.S. economy – from minority- and women-owned businesses to rural communities.
- We have teamed with the California Trade & Commerce Agency and local nonprofits to research ways to reduce the Central Valley's dependence on agriculture and to attract industry to the region.
- We are part of a team providing advice to China's government on regulatory reform for the financial system.
- We're advising the New England Healthcare Institute on trends in health care, with the goal of making the region more attractive to providers. [See Ross DeVol's Institute View on page 91 of this issue.]
- In partnership with the nonprofit Nehemiah Corporation, we are studying ways to make home mortgages more affordable for low- and middle-income families.
- We're assisting the State of Nebraska with its initiative to attract technology-based industry and a highly skilled workforce.
- We've partnered with municipalities and nonprofits in Israel, including the Jerusalem Center for Public Affairs, helping to reform markets strangled by regulation.
- We have worked with a number of state pension funds to identify emerging domestic-market investment targets and to develop methods for financing their growth.

We've also begun a major effort in health care. The Center for Accelerating Medical Solutions will examine the medical research process with a goal of changing institutions that slow progress in reducing the toll from diseases. The Center is now establishing operations in the Washington, DC area.

We are excited about these projects, and are proud to have these organizations and entities as our partners. If there are projects you would like to pursue with the Milken Institute, please let us know.

Michael L. Klowden
President and CEO

Is the cover of this issue a knockout, or what? For that matter, isn't the whole issue a treat to the eyes? Credit **Joannah Ralston** of Insight Design in Vermont, who has done it all since the start – she even found the campy movie posters that illustrate our latest book excerpt.

And this time around, we've got copy that lives up to the visuals.

Start with **George Feiger's** insights on the unintended consequences of the Fed's efforts to bring the economy out of recession. Feiger, a senior adviser to the Monitor Group consulting firm, points out that cutting interest rates redistributes income, even as it lowers the cost of business investment. And the folks – mostly retirees – at the short end aren't about to accept their lot with stoicism.

"Retirees living on their investments have experienced devastating reductions in consumable income – down to $10,000 to $30,000 per year per million dollars of financial assets," he notes. "Predictably, many of these investors have been aggressively, even desperately, scrambling for higher yields. Wall Street is responding in a way that starkly reveals the risks individual savers run in dealing with a commission-driven retail savings industry."

Rudy Penner, a senior fellow at the Urban Institute and a former director of the Congressional Budget Office, examines the controversy over estimates of the cost of federal tax and spending initiatives. In particular, he analyzes the debate over "dynamic scoring" – the practice, dear to the hearts of supply-siders, of factoring in the potential tax gains from accelerated economic growth.

"Although the contretemps over dynamic scoring has been educational," he writes, "it has diverted attention from much more serious problems with the current scoring process. For example, important distortions result from using a 10-year time horizon that scores the impact for the 11th year as zilch. These distortions are particularly serious when considering changes in the taxation of capital income."

Peter Orszag, a senior fellow at the Brookings Institution, examines the states' collective $80 billion budget deficit and is more than a little disturbed by what he finds. "After two years of budget trims, states have largely run out of easy options. They are now cutting

TOM NICK COCOTOS