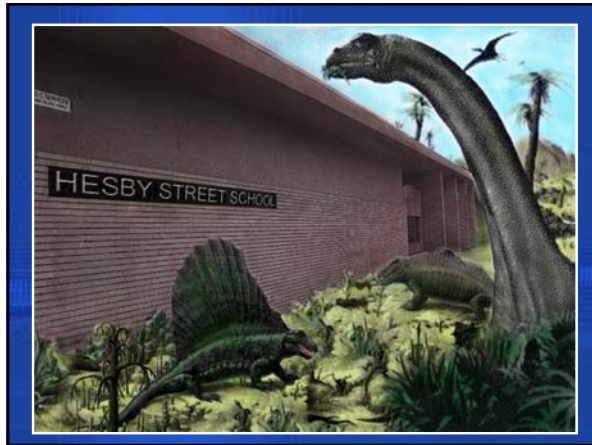
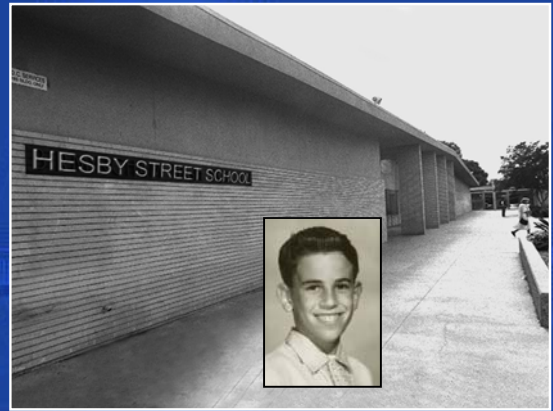


Toward a More Prosperous Future

Commonwealth Club
San Francisco
January 13, 2010

Michael Milken
Chairman, The Milken Institute



California

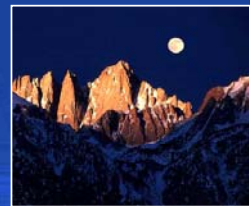
A Geographic
and
Economic
Powerhouse



Yosemite - The First National Park 1890



Death Valley
Lowest Point in
North America



Mt. Whitney
Highest Point in
Continental U.S.

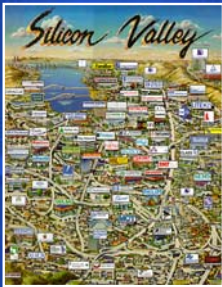
Surf and ski on the same day!



Southern California ...



... to Northern California



California's Strengths

- Youngest population
- Diversified economy
- 50% of all U.S. venture-capital funding
- Silicon Valley - global center of innovation
- Tourist magnet
- Center of global entertainment industry
- Spectacular scenery and natural resources
- The nation's fruit and vegetable capital
- Great public and private universities
- Leading medical institutions
- ... and the World Champion S.F. Giants!

California's Challenges

- Unfunded liabilities
- Cuts in basic services
- High taxes on the most-productive earners
- Loss of companies, financial institutions and jobs
- Population exodus
- Low bond rating
- Political gridlock
- Water shortage
- Illegal immigration's impact on social services

23 Time Magazine Covers About California



Lake Tahoe

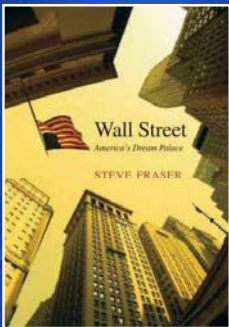
"At last the lake burst upon us ... As it lay there with the shadows of the mountains ... I thought it must surely be the fairest picture the whole world affords."



- Mark Twain

Toward a More Prosperous Future

- Perception vs. Reality
- Access to Capital
- Building Human Capital
- Do We Have the Will?



"Real estate prices collapsed, credit dried up, house building stopped ... in 1792."

- The stock market dropped 50 percent.
- Banks curtailed lending.
- Commentators predicted widespread industrial bankruptcies.
- Unemployment rose quickly.
- Interest rates were volatile.

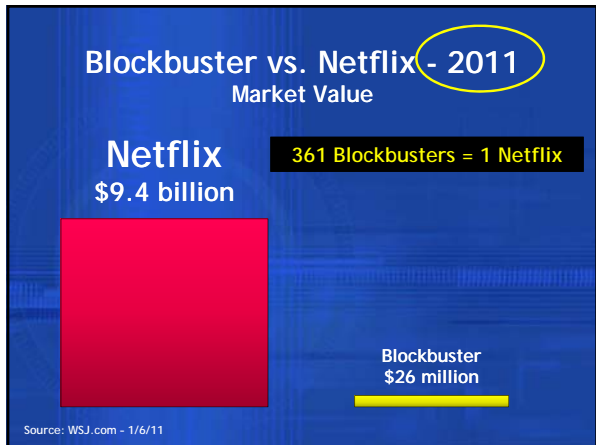
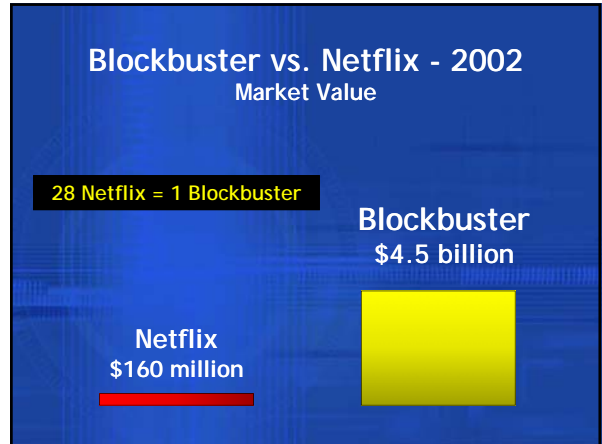
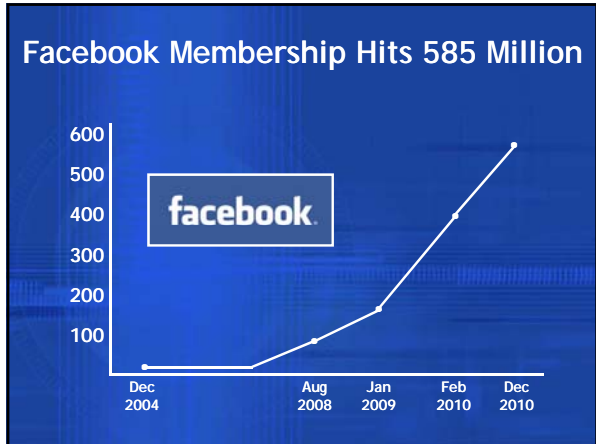
...in 1974.

What is the most valuable real estate in the world?

1. New York
2. Beverly Hills
3. London
4. San Francisco
5. Moscow
6. Tokyo
7. Dubai

What is the most valuable real estate in the world?





The World's Top 10 Economies (Percent of World GDP)

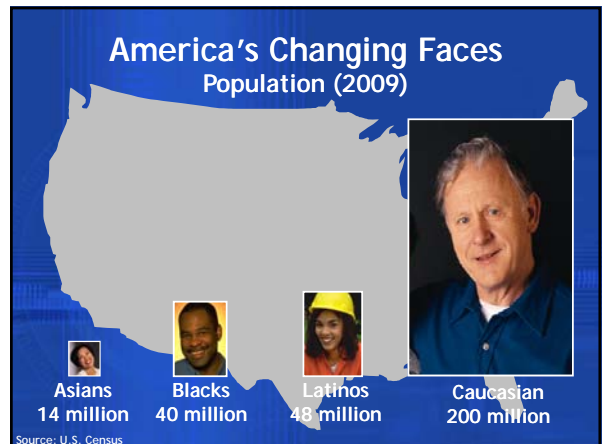
Today	2050	1820
U.S. (23.6%)	China (18.5%)	China (28.7%)
China (8.7%)	U.S. (16.5%)	India (16.0%)
Japan (8.6%)	India (12.0%)	France (5.4%)
Germany (5.2%)	Brazil (4.8%)	England (5.2%)
France (4.4%)	Indonesia (3.5%)	Prussia (4.9%)
U.K. (3.6%)	Japan (3.1%)	Japan (3.1%)
Italy (3.4%)	Mexico (3.0%)	Austria (1.9%)
Brazil (3.1%)	Russia (2.7%)	Spain (1.9%)
Canada (2.6%)	Germany (2.6%)	U.S. (1.8%)
Russia (2.4%)	U.K. (2.0%)	Russia (1.7%)

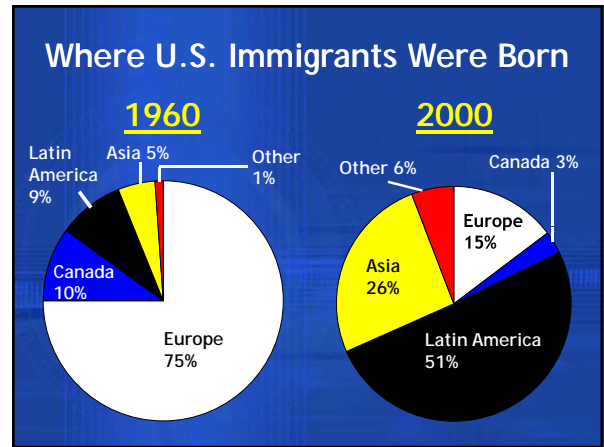
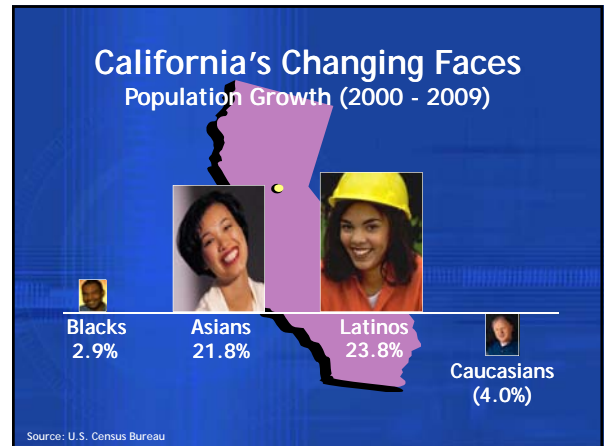
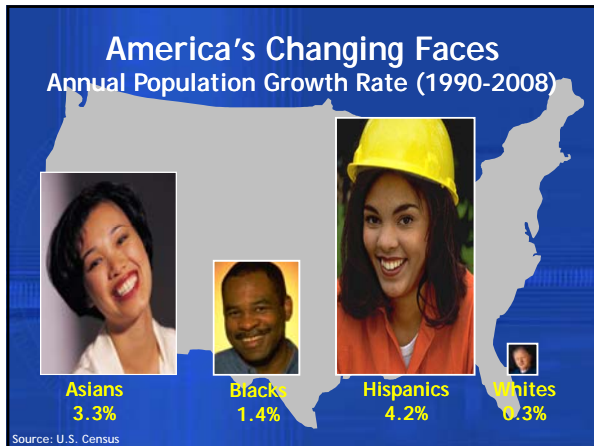
Sources: World Bank/Angus Maddison, "The World Economy: Historical Statistics" (OECD)/ PricewaterhouseCoopers/Milken Institute/Goldman Sachs (9/09)

GDP: California and the World US\$ Trillions (2009)

1. United States	\$14.0
2. Japan	\$5.1
3. China	\$4.9
4. Germany	\$3.3
5. France	\$2.6
6. United Kingdom	\$2.2
7. Italy	\$2.1
8. California	\$1.8
9. Brazil	\$1.6
10. Spain	\$1.5

Sources: The World Bank and Moody's Analytics





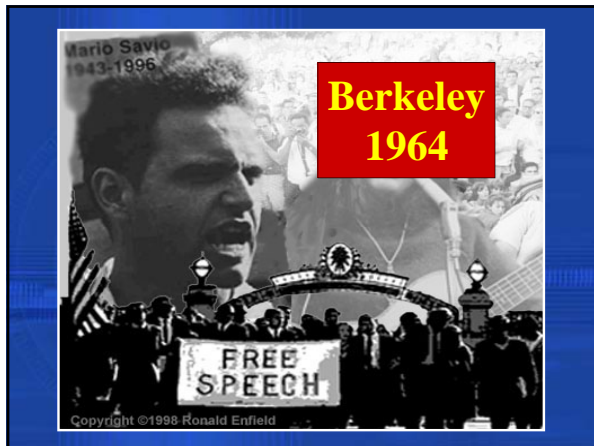
Top Ten Home-Buyer Surnames

California

1990	2010
1. Smith	1. Nguyen
2. Lee	2. Lee
3. Johnson	3. Garcia
4. Garcia	4. Chen
5. Brown	5. Lopez
6. Williams	6. Rodriguez
7. Miller	7. Gonzalez
8. Wong	8. Hernandez
9. Martinez	9. Martinez
10. Jones	10. Kim

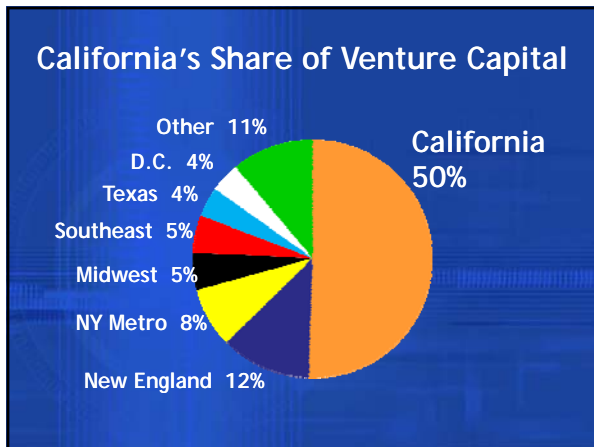
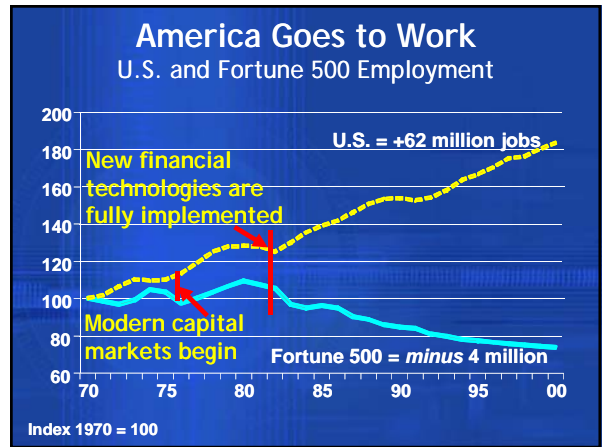
Source: MDA DataQuick, county records / California Association of Realtors

- ### Toward a More Prosperous Future
- Perception vs. Reality
 - Access to Capital
 - Building Human Capital
 - Do We Have the Will?

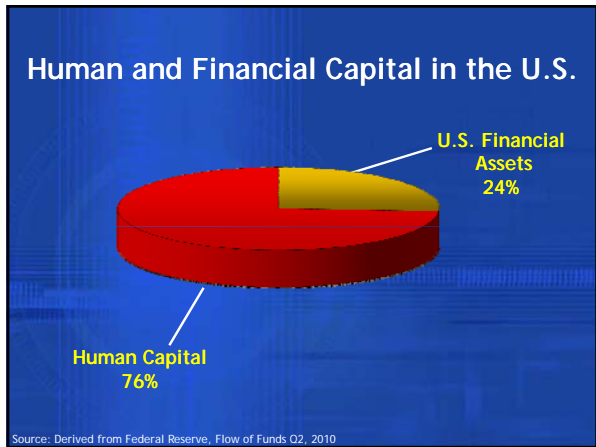
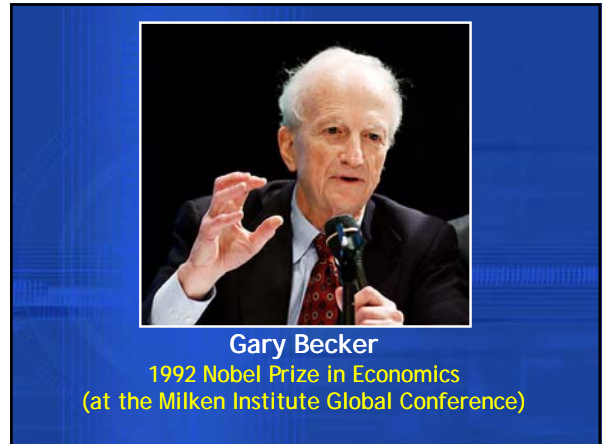
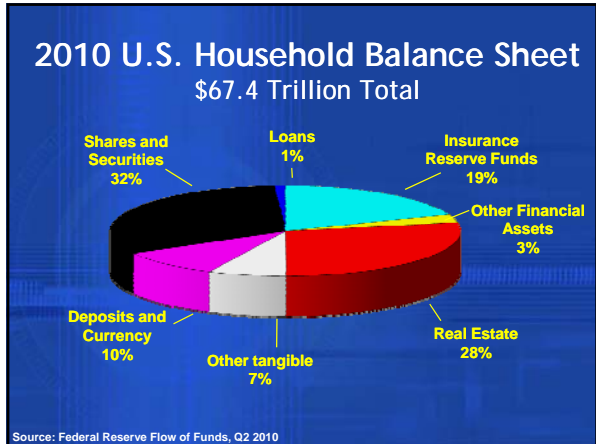


$$P = \sum Ft_i * (\sum HC_i + \sum SC_i + \sum RA_i)$$

P = Prosperity
 Ft = Financial Technology
 HC = Human Capital
 SC = Social Capital
 RA = Real Assets



- ### Toward a More Prosperous Future
- Perception vs. Reality
 - Access to Capital
 - Building Human Capital
 - Do We Have the Will?



Average Wins Per Year

Not one Super Bowl appearance

6
1966 - 1978

Joe Montana

Average Wins Per Year

Not one Super Bowl appearance

6
1966 - 1978

Joe Montana

4 Super Bowl Championships!

12
1979 - 1992



The 21st Century will see a worldwide competition for human capital.

Do human capital strategies work?

	1960	2010
 Singapore	Per Capita GDP \$2,229	\$40,336
 Jamaica	\$2,213	\$4,825

Source: IFS, WEO, in current USD

Knowledge Universe Singapore



Building Human Capital (Non-Profit Organizations)

Milken Family Foundation (1982)

- Education reform/teacher recognition/medical research

The Milken Institute (1991)

- Economics/public-policy research and conferences

Prostate Cancer Foundation (1993)

- World's leading philanthropic source of support for research

FasterCures (2003)

- Removing barriers to progress on all life-threatening diseases

Melanoma Research Alliance (2007)

- Advancing research on the most-deadly skin cancer



Nearly 2,500 educators nationwide



Improve the lives and economic conditions of diverse populations in the U.S. and around the world by helping business and public policy leaders identify and implement innovative ideas for creating broad-based prosperity.



May 2-4
Los Angeles

- Finance
- Philanthropy
- Education
- Health
- Climate/Energy
- Government
- Regions
- Industries

www.milkeninstitute.org



- Center for Global Capital Markets
- **California Center**
- Israel Center
- Center for Financial Innovations
- Center for Regional Economics
- Center for Health Economics
- Center for a Sustainable Energy Future
- FasterCures



Milken Institute, Santa Monica



Toward a More Prosperous Future

- Perception vs. Reality
- Access to Capital
- Building Human Capital
- Do We Have the Will?



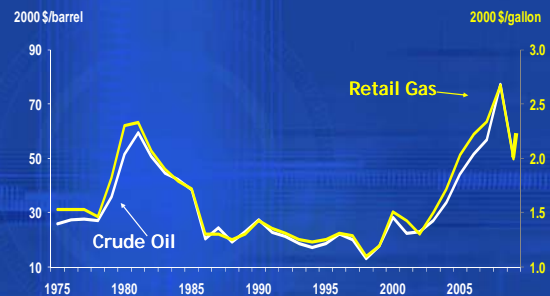
"Ask not what your country can do for you, but what you can do for your country."

John F. Kennedy
1961 Inaugural

Do We Have the Will?

- Energy
- Housing
- Entitlements
- Education
- Investing in America
- Health

Price Volatility Increases Alternative-Fuel Investment Risk



Source: Richard Newell, Resources for the Future

President Jimmy Carter on the energy crisis and proposed energy legislation

"This difficult effort will be the 'moral equivalent of war' -- except that we will be uniting our efforts to build and not destroy."

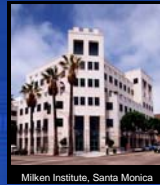


Percentage of oil from foreign sources

Nixon	36.1%
Ford	37.1%
Carter	40.5%
Reagan	43.6%
G. H. W. Bush	47.2%
Clinton	49.8%
G. W. Bush	65.5%
Obama	66.2%



- Center for Global Capital Markets
- California Center
- Israel Center
- Center for Financial Innovations
- Center for Regional Economics
- Center for Health Economics
- **Center for a Sustainable Energy Future**
- FasterCures



Milken Institute, Santa Monica

Do We Have the Will?

- Energy
- **Housing**
- Entitlements
- Education
- Investing in America
- Health

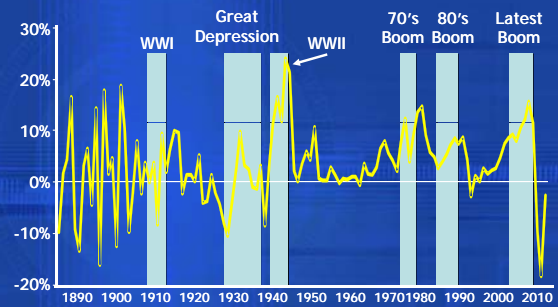
Fallacy:

"Any loan to real estate is a good loan ... "



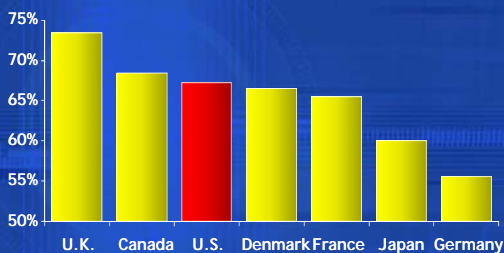
Home prices don't go up forever

Change in home prices in 100-plus years



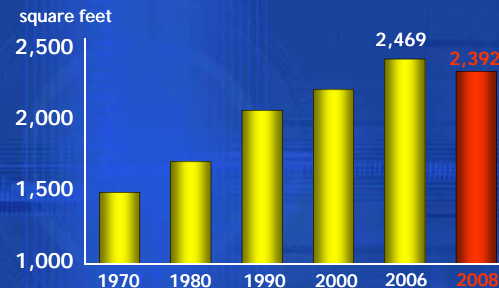
Sources: Robert Shiller, Milken Institute.

Current Home Ownership Rates

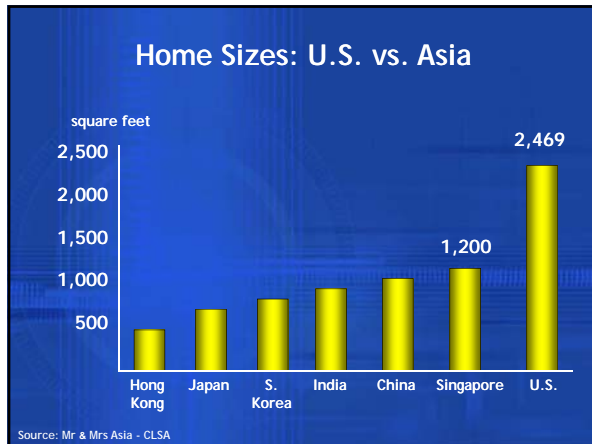


Sources: EuroStat, HUD, Milken Institute.

Average Size of American Houses



Source: National Association of Home Builders / U.S. Census Bureau



Consumer Spending

U.S.		Asia	
Housing	32.7%	Food	23%
Transportation	18.0%	Education	15%
Food	12.8%	Housing	10%
Insurance/pensions	11.2%	Clothing	8%
Healthcare	5.7%	Other	8%
Entertainment	5.1%	Transportation	6%
Apparel and services	4.1%	Healthcare	5%
Cash contributions	3.6%	Communication	5%
Education	2.0%		
Personal care products	1.2%		

Source: U.S. Bureau of Labor Statistics/CLSA Mr & Mrs Asia

China

- Parents spend an average of 15% on their children's education ... and only 10% on housing.
- 55% of parents in China send their children for extra lessons in English.

India

- Extracurricular activities consisted of academic coaching in 95% of the households.
- 43% of parents want their children to get a Master's degree; 29% want them to get a PhD.

South Korea

- Spend more on education (22%) than housing (13%)
- 70% of Korean parents expect their children to work overseas, of which more than half expect their children to work in the US.

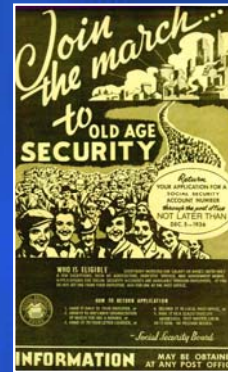
Do We Have the Will?

- Energy
- Housing
- Entitlements
- Education
- Investing in America
- Health

When Social Security was introduced in 1935, the average life span in the U.S. was 61.7 years.

In 2009, life expectancy in the U.S. reached 78.1 years.

Sources: National Center for Health Statistics, *National Vital Statistics Reports*, vol. 54, no. 19, June 28, 2006.
U.S. Census Bureau, International Database.



The Entitlements Challenge

- Unrealistic assumptions on rates of return.
- Falling ratio of current workers to retirees.
- Workers who pay taxes for too few years.
- Retirees who live longer than assumed.

Do We Have the Will?

- Energy
- Housing
- Entitlements
- Education
- Investing in America
- Health

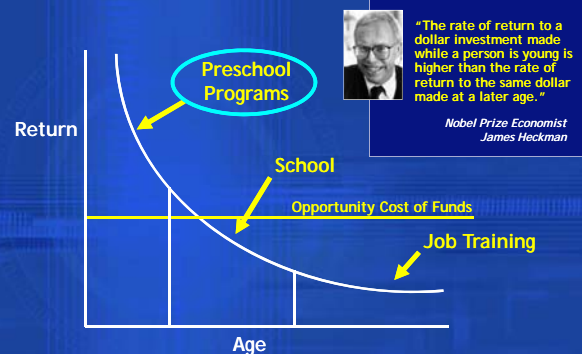
Between 1870 and 1950, Americans added almost **one year of education each decade**.

By 1960, the highest average grade level in the U.S. **exceeded every other nation by two years**.

Since 1960, we have made no progress and several **other nations have surpassed us**.

Source: Claudia Goldin and Lawrence Katz / *The Race between Education and Technology*

Return on Human Capital Investment



Source: James Heckman, University of Chicago



State-of-the-art 40,000-square-foot Life Connections facility for early childhood care and employees services



Do We Have the Will?

- Energy
- Housing
- Entitlements
- Education
- Investing in America
- Health

Highly skilled, entrepreneurial and educated immigrants are crucial to American prosperity.

International Students at U.S. Universities

1.	University of Southern California	7,189
2.	New York University	6,404
3.	Columbia University	6,297
4.	University of Illinois	5,933
5.	Purdue University - Main Campus	5,772
6.	University of Michigan	5,748
7.	University of California, Los Angeles	5,557
8.	University of Texas	5,550
9.	Harvard University	4,948
10.	Boston University	4,789

Source: Open Doors

California Tech Companies Founded by Immigrants



Yahoo!



Sun



Sun



eBay



Google



Intel



Viewsonic



SanDisk



SanDisk



NVidia

Do We Have the Will?

- Energy
- Housing
- Entitlements
- Education
- Investing in America
- Health

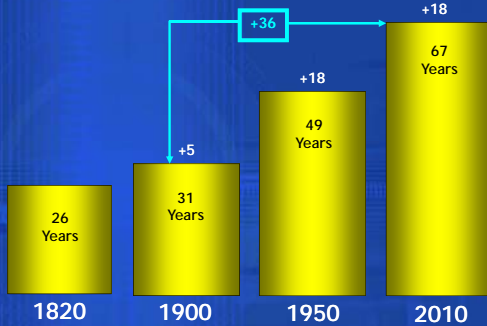
Some Great Achievements in History

- Invention of the wheel
- Development of agriculture
- The printing press
- Copernican revolution
- Industrial and technology revolutions
- Extension of life expectancy



One of every five American babies born in 1900 did not live to celebrate a 5th birthday.

Worldwide Life Expectancy Growth

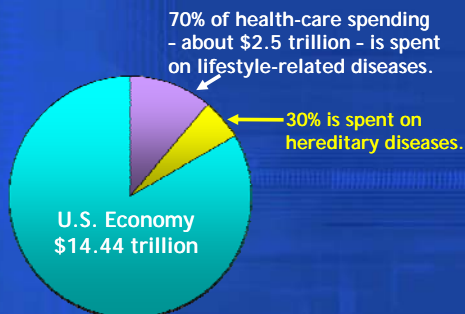


Source: United Nations Development Program

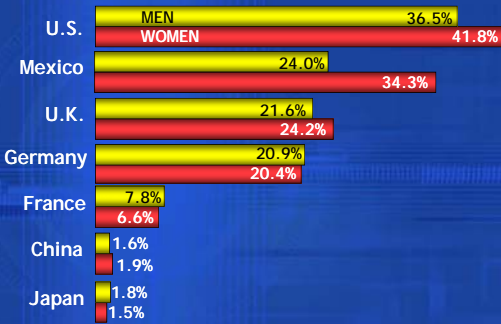
Three Solutions to Healthcare Challenges

- Prevention
- Cost reduction
- Research leading to cures

Lifestyle Makes a Difference



Obesity Rates: U.S. vs. World



Source: World Health Organization / Estimated obesity rates for people aged 15 years and older / 2005



There is a “staggering cost for failing to contain the containable.”



MILKEN INSTITUTE

Chronic Disease Study

Failure to address chronic diseases adequately costs the U.S. economy more than \$1 trillion annually.

Only in America



Only in America



Safeway: Improving Employee Health and Reducing Healthcare Costs



Safeway Health has kept health care costs flat for five consecutive years.

- 5% reduction in overweight and obesity rates
- 6% improvement in normal-weight employees

Source: Safeway

Potential to Save California Billions



If the State of California adopted a program modeled on Safeway Health, Safeway estimates the State would save **\$35.5 billion** over five years ... and create an annuity value of **\$12.5 billion**.

All without touching retiree health care benefits.

Source: Safeway

We have changed behavior:

- Seat-belt use
- Smoking reduction
- Recycling programs



We can also change diet and exercise.

Half of all economic growth in the 20th century can be traced to medical research advances.

Economic Value of Eliminating Deaths

Heart Disease	\$60.5T
Cancer	\$58.1T
Stroke	\$9.5T
AIDS	\$9.3T
U.S. Balance Sheet 2010	\$67T

Source: Estimates base on 1999 studies by Kevin Murphy and Robert Topel/University of Chicago

Leading California Medical Institutions



Major Spending Initiatives in the U.S.

National Heart Institute budget	\$3.0B
National Cancer Institute budget	\$4.9B
2008 U.S. political campaigns	\$5.3B
Consumer spending on potato chips	\$5.3B

Source: Center for Responsive Politics

Does **California** have the Will?

- Energy
- Housing
- Entitlements
- Education
- Immigration
- Health

“Never doubt that a small group of thoughtful, committed citizens can change the world: indeed, it’s the only thing that does.”



-Margaret Mead

Toward a More Prosperous Future

Commonwealth Club
San Francisco
January 13, 2010

Michael Milken
Chairman, The Milken Institute