Six Strategies to Fix the Economy

Michael Milken, Chairman of the Milken Institute, has proposed six strategies to fix the economy. The following is an excerpt from his Wall Street Journal article published on October 7, 2010 and CNBC interview on March 23, 2011. It is also taken from his forthcoming book Where's Sputnik? He indicates that the issues facing our country today are not new, and, in most cases, we can address them without more taxes and government spending. Their solutions require effective leadership in Washington D.C., doing a better job of allocating the resources we have, and a determination to tell the uncomfortable truth that we can’t have it all.

Education - We must hire and keep the highest-quality teachers possible and do this through powerful, embedded professional development, transparent and fair teacher evaluation, and performance-based pay. Widespread implementation of this strategy would provide a long-term stimulus to the U.S. economy, and help regain the educational leadership we once enjoyed among nations.

Health - Out of every $10 our nation collects in taxes, the government invests only a few pennies on medical research aimed at reducing suffering and death from heart disease, cancer, and other dreaded conditions. Faster medical advances would lessen pain and grief while yielding enormous productivity benefits. More publicly supported research will help, and we should demand it. But, we should also demand more of ourselves. The Milken Institute’s 2007 study, An Unhealthy America, notes that 70 percent of health costs (more than $2 trillion a year) are related to lifestyle. So prevention is at least as important as finding cures through research. Government programs are no substitute for personal responsibility in reducing the costs that flow from smoking, poor diet, and inadequate exercise.

Entitlements - Unrealistic promises of overly generous health and retirement benefits forced General Motors, once the world’s largest company, into bankruptcy. Unfortunately, the simple math of GM’s situation applies to many institutions, including state and local governments that face massive pension commitments. Looming even larger are the federal government’s long-term obligations to recipients of Social Security and other entitlements. The problem is rooted in (a) unrealistic assumptions about rates of return on assets; (b) falling ratios of employed workers to retirees; (c) workers who
pay into the system for too few years; and (d) pensioners who live longer than the original planners assumed. It is a complex problem whose solution will almost surely involve a political compromise between higher income taxes and lower benefits. But, an important first step would be to periodically adjust minimum retirement age to 85 percent of life expectancy.

**Immigration** - While the public debate centers on undocumented and low-skill workers, we should equally focus on welcoming high-skilled and educated professionals. Legal immigrants have historically boosted our economy. For example, more than half of Silicon Valley's science and engineering workforce is foreign-born. Any nation that fails to welcome high talented and educated immigrants will fall behind. I have long proposed expanded visa programs for skilled workers and for substantial investors, who purchase property or create jobs. These workers and investors are also consumers and taxpayers, who contribute to job creation and economic growth. We should grant permanent residence to graduates from accredited science and engineering programs.

**Energy** - We recognize that energy security is at least as important as cotton and tobacco, whose prices we support. Oil needs similar support to avoid a repetition of the 1980s, when many financial institutions and investors who responded to the call for energy independence were devastated by plunging prices. Lack of that support will discourage new investments in sustainable energy sources. Regrettably, the political hurdle is high because people want lower prices at the gas pump. They forget that we also pay for energy security with aircraft carriers, anti-terrorism measures, environmental degradation and, most tragically, military and civilian lives.

**Housing** - My early academic research showed that investments in loans against real estate were worse investments than loans to businesses. Collateralized loans to U.S. companies, which create nearly all American jobs, have stood the test of time. Meanwhile, investors have suffered some $1 trillion in losses on supposedly safe mortgage-backed assets. Consider how many more jobs small businesses would have created if they had enjoyed the same terms we gave homeowners - easy access to thirty-year, government-guaranteed loans at near-prime rates with no prepayment penalties. Those terms encouraged larger houses - the average size doubled in a generation to 2,500 square feet - even as family size shrank. This required more land farther from cities, and we bought bigger cars for longer, energy-wasting commutes.

Mortgage interest tax exemption was a great misallocation of resources spurred by government policy and individual choices. We justified it on the theory that home ownership is a social good that builds personal responsibility and contributes to stable communities. But our ill-conceived policies produced the opposite: excessive consumer debt, irresponsible lending, mortgage defaults, unemployment and declining neighborhoods. Ironically, a larger share of the population own homes in many other countries where borrowers do not have a mortgage-interest tax deduction and put up far more equity (and where lenders have recourse against their non-housing assets).
American policy makers got it backwards: in the long run, jobs support housing, not the other way around. Among other reforms, we could start a gradual phase-out of non-recourse residential mortgages.