



As America gears up for the 2008 presidential campaign, one issue – the Iraq war – looms above all others. But I suspect that, long after that war has faded into history, two other issues – health care and global climate change – will be dogging policymakers.

As Uwe Reinhardt of Princeton University points out in this issue of the *Milken Institute Review* (page 36), the American health care system is buffeted by contradictions. Americans spend almost twice as much per person for care as do Canadians or Germans, yet deliver a haphazard mix of superb high-tech medicine and last-minute, emergency-room care unworthy of a wealthy industrialized nation. Gaping holes in insurance coverage mean that tens of millions of middle-income Americans risk financial ruin if they become seriously ill.

What's more, the malaise seems to be spreading to areas where American medicine was once supreme. As the report from the Milken Institute's Financial Innovations Labs in this issue (page 86) concludes, the pharmaceutical industry, long a font of technological progress, is now hard-pressed to finance the high-risk research needed to exploit the explosion of knowledge in the biological sciences. Not surprisingly, then, the pressure to change at every level of the creation and delivery of health care is inexorably building.

The other slow fuse burning in Washington concerns climate change. As Ricardo Bayon,

director of the Ecosystem Marketplace, points out on page 17, "it used to be that there was some political doubt that human-induced global warming was a reality... Now, the only real debate is about what role the United States should play in containing global warming and who will bear the cost." Congress has already begun hearings on global warming, and the Democratic majority seems determined to make its mark on the issue before the election.

Of course, if any of the presidential candidates is looking for advice on these subjects, we'd be happy to help. For both are important areas of research at the Milken Institute. And while the two have little in common, we believe that thinking about each could benefit from the application of some capital-markets innovation.

On drug research, for example, our Financial Innovation Lab offered six market-based approaches to bridging the funding gap – everything from pooling drug patents to guaranteeing government purchases of new vaccines at prices set in advance. On global warming, we recently completed a study with Stark Investments and the Baker & McKenzie law firm that outlines the use of a cap-and-trade free market system to minimize the cost of containing carbon emissions.

The Milken Institute doesn't have all the answers. But we are strongly committed to applying insights from financial markets to the great policy challenges of our times.

Michael Klowden, President and CEO