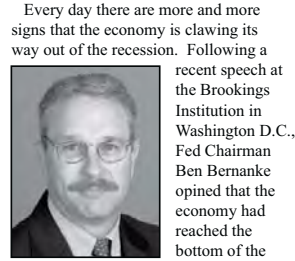


Commentary

An economy on the mend: Credit the Fed, not Congress

R.W. Hafer is a regular columnist for the Illinois Business Journal. He can be reached at (618)650-2542 or hafer@siue.edu.



Every day there are more and more signs that the economy is clawing its way out of the recession. Following a recent speech at the Brookings Institution in Washington D.C., Fed Chairman Ben Bernanke opined that the economy had reached the bottom of the business cycle. He predicted economic growth from here on, though hedged that it would not be spectacular and that the unemployment rates would be stubbornly high for some time. With this news, who should get the credit? Before answering that question, let's see if there is evidence to support Bernanke's claim. The Federal Reserve Bank of Chicago publishes an index of economic activity. This measure, called the National Activity Index, has established a pretty good track record of predicting downturns. (More detailed information about the index, and charts tracking its behavior, is available at www.chicagofed.org/cfnai.) The index is a weighted average of 85 separate measures of economic activity. The measures fit into four broad categories: production, employment, consumer spending and

sales. When the index value is zero, the economy is growing at its long-run trend. When it turns negative, the economy is slowing. Over the past 40 years the index has declined prior to the onset of a recession. Each time it has fallen below a value of -0.7, a recession has occurred. In fact, it has no false-positives: Every single time it pierced the -0.7 threshold, a recession ensued. A year ago the index took a big dive, going well-below the -0.7 threshold. In fact, the decline in the index had not been matched since the recession of the mid 1970s. While economic activity in 2007 had been weak, that "mental recession" paled in comparison with the post-Lehman collapse. Accompanying the September 2008 failure of Lehman, the Fed's activity index tanked and the recession began in earnest. One year later, the index is making a significant comeback. Similar to the recessions of the mid 1970s and early 1980s, there has been a marked reversal in the index since earlier this year. Compared with a February 2009 value of nearly -2.5, the index in July - the most recent value available - was -0.74. Though still not positive, this marked increase is now flashing green signals of recovery. This activity index's march back toward positive territory doesn't mean that the unemployment rate will start dropping anytime soon. But it does mean that the economy is rebounding and that employment prospects will be brightening. It is one more indicator that output and income is on the mend, and that we'll be

out of recession before too long. (Don't be surprised if third quarter GDP growth is close to zero, if not slightly positive.) So who should get credit for the turnaround? Bernanke? Paulson? A stimulus-happy Congress? Garrett Jones, a senior scholar at the Mercatus Center at George Mason University, suggested to me that it is Milton Friedman and Ann Schwartz. I couldn't agree more. Milton Friedman and Anna Schwartz's *Monetary History of the United States*, written in the 1960s, gave economists and policymakers the key to fighting a recession: Keep the money supply growing. Friedman and Schwartz - and those who applied their analysis - convinced many that the linchpin for a collapsing economy during the Great Depression was because the Fed allowed the money supply to fall by one-third. In 2002, then Fed governor Bernanke, a student of the Great Depression, avowed at a celebration of Friedman's 90th birthday that the Fed learned its lesson and promised "[W]e won't do it again." During the past year the Fed kept this promise by opening the monetary floodgates. In addition to pushing interest rates to near-zero, the money supply expanded enormously. In research conducted with Jones, we found that even more than low interest rates, a central bank's ability to offset economic downturns comes from its power to grow the money supply. Based on our historical estimates, plus the evidence of the past year, the expansion of the money supply is the most likely explanation for the nascent economic recovery, which also

has produced a rather nice bounce back in the stock market. Shouldn't the government's mega-stimulus package get some credit? There is no doubt that the stimulus money has and will have some positive effects. But those benefits pale in comparison with Fed actions. And they could actually slow the recovery. Jones and his colleague Veronique de Rugy observed in a recent Mercatus Center publication that government-induced job hiring may simply siphon jobs from the private sector. That can hurt the potential for economic recovery. The logic of their story is straightforward: Stimulus-funded government jobs offer good pay and job security. Some workers will be induced to jump ship from private sector jobs to government jobs. What's worse, however, is that many unemployed people will keep searching for work a few weeks longer hoping to find a plum government job. The final result? A smaller private sector, but lots of grateful government workers. Perhaps this helps explain why spending the bulk of the stimulus money is earmarked for 2010, an election year. Bernanke kept his promise to Friedman. With the economy on the mend, it is time for the chairman to heed Friedman's other famous observation: Inflation is always and everywhere a monetary phenomenon. *R.W. Hafer is a distinguished research professor and chairman of the Department of Economics and Finance at Southern Illinois University Edwardsville. He is also a scholar of the Show-Me Institute in St. Louis.*

Letters

Dear Editor:

I had to chuckle as I read Kerry Smith's Sept. '09 editorial ("Outsourcing is further damaging an already-ailing U.S. economy"). That same day, I did not receive my *Belleville News-Democrat* newspaper. As I have done in the past, I called the paper. Much to my surprise, I was transferred to someone not from Belleville as I was familiar with the accent, having to deal with the same type of phone service for computer support at my business. I agree with your column that outsourcing is "particularly damaging" to our economy. I enjoy receiving your paper.

**Craig Hubbard
O'Fallon**

Dear Editor:

First of all, I wish to thank you for the high quality of your publication. We are particularly impressed with the healthy debates on the issues in "Point/Counterpoint." We are also impressed by your desire to engage the culture with relevant thinking about issues that affect not only the immediate business concerns of Illinois, but also the legal environment in which we must live in the future. We agree with Alan Ortals' editorial 100 percent that decisions we make in 2009 are the most relevant for the immediate future. I would like to make one point on the Constitution. While it is an 18th century document, it was written with an eye to the future. It has outlived and

outperformed all competitors as a marvel of wisdom and endurance. The 18th century man was not primitive. Men in that era had businesses, medical needs, family concerns, knew about the impact of domestic and foreign competition and lived in an interdependent, multi-cultural world. To meet the needs of a complex world, the Constitution was given an internal mechanism for change: the amendment process. This has been used throughout the decades to keep the Constitution up to date with a changing world. In this sense, the Constitution is a 21st century document, more up to date than the morning newspaper. Newspapers can only report the past and make some conjecture about the future. The Constitution, on the other, already governs the present and can adapt to the future as elected men properly legislate. It is still the law of the land. Taking health care as an example, we look to see if health care is an enumerated power of Congress. Since it is not listed in Article 1, Section 8, we are left with only two legal choices. Either the Constitution should be properly amended by a 75 percent majority of the states - or left in the private sector where it currently and legally resides. As you so often point out, this is good business as well as good government. Legal principle must come before political expediency if we are to succeed. Again, we appreciate your interest in a healthy world for our future. Southern Illinois is bright with promise, and you are helping to keep people informed. For that we are thankful.

**Stephen Huffman
Belleville**

Dear Editor:

As part of the media, I suppose I should have seen Alan Ortals' Sept. '09 editorial coming ("If you're not part of the solution, you're part of the problem. Sit down and shut up"). However, as a Southern Illinois businessman, I would have thought that he had a little more experience to temper his liberal rant. Anyone who would use Bill Moyers as an example of "clear thinking" is as brainwashed as a Pat Robertson worshiper. While some of Alan's points are certainly well made, he left out the most important point of all. The Obama Administration had made every attempt to ram their version of healthcare reform down our throats, without even reading it themselves. Huh? While I applaud Alan's effort in the classroom, did he also just go ahead and say to his students that "whatever our great democratic fathers in Springfield and Washington tell you they want to do is without question correct"?

Wow. No, double wow. If all the horrible conservative pundits that Alan makes sure to list had not stood up and gotten the attention of the grassroots folks that Obama so loved just last year - the ones who voted for his style of "change" but are now classified by the media types as "uninformed redneck rabble rousers" - we would have the worst possible healthcare reform bill passed, with no "group participation" like Alan correctly taught his students. Take note - now that an actual "conversation" has appeared to begin, a lot of the shouting has died down. A drowning man does need to shout to get someone's attention to be saved, and the country was about to be drowned in the policies of Obama, Reid, and Pelosi. Just look at those three names and ask yourself if their ideas - going unread by the majority of the congress - should not scare all of us just a little bit.

**Scott B. Reichmann
Carlinville**

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Collinsville: A New Renaissance



Today, downtown Collinsville is in the midst of a renaissance, rebirth and redevelopment campaign that is creating new opportunities for shops, restaurants, businesses and entertainment venues. (Recent improvements to the streetscape have further enhanced the area named 'Best Improved Main Street in Illinois' in 2003 by the State.) The downtown district is home to Collinsville's public library, a newly restored D.D. Collins house, the MCT Transfer station, a post office, a new city museum, a restored historic theater, historic city hall, township building, senior citizens center, schools, professional offices, retail establishments, unique restaurants and churches.

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<http://ci.collinsville.il.us> www.collinsvillenow.com

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Answer Midwest retains Grandone PR

Answer Midwest, a teleservices company, has contracted with Grandone Public Relations for professional public relations services and to assist in developing a branding strategy for the company.

River Bend Growth Association welcomes 5 new members

The River Bend Growth Association announces its newest members: Dayspring Financial Solutions Inc. in Alton; Encore Bath & Remodeling Inc. in Godfrey; Extra Help Inc. in Edwardsville; Greater Alton Concert Association in Alton; and World Finance in Bethalto.

The River Bend Growth Association is the chamber of commerce and economic development organization for the 11 communities known as the River Bend.

McClellan receives Commerce Bank-sponsored community service award

Robert McClellan Jr. is the recipient of the 2009 Community Service Award sponsored by Commerce Bank. Grants totaling \$10,000 funded by the William T. Kemper and Commerce Bancshares foundations were given in McClellan's name to the Lewis and Clark Community College Foundation. Born and raised in Edwardsville, McClellan participated in the Southern Illinois University Edwardsville's new automation training program during high school due to his love of math and at the urging of a teacher. Students learned computer technology and

offered them part-time employment at the university. McClellan's involvement in the program launched his educational and professional career at SIUE.

Shimkus, Costello announce HUD grants to Madison County

U.S. Reps. John Shimkus (R-Illinois) and Jerry Costello (D-Illinois) announce two United States Department of Housing and Urban Development grants to Madison County.

Through the Community Development Block Grants program, Madison County will receive \$3,171,886. These funds are intended to help urban communities develop decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate-income persons.

Through the HOME program, Madison County will receive \$1,169,039. These funds are designed to help increase the supply of decent, affordable housing to low and very low-income families.

Gateway Terminals, Tri-City Port get Homeland Security Act funds

U.S. Rep. Jerry Costello (D-IL) announces that two local organizations have received Port Security grants through American Recovery and Reinvestment Act funding from the U.S. Department of Homeland Security. Gateway Terminals LLC, located in Sauget, has received a \$1,405,438 grant and the Tri-City Regional Port District has received a \$400,000 grant. The funds will be used for security improvements.

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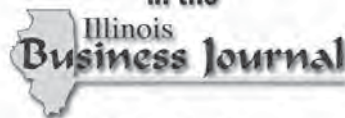
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Government Affairs Report:

Illinois State Chamber of Commerce

By **DOUGLAS L. WHITLEY**
President and CEO
Illinois State Chamber
of Commerce

Taxes, Taxes, and More Taxes

The Chamber is renewing its call to action for corporations to take another look at two important tax issues that could greatly affect your business in a costly way: the partnership tax and franchise tax regulations. This summer, the General Assembly



Whitley

took action on legislation that drastically increases the cost of doing business for our state's small business community. SB 1912 (now P.A. 95-0045), which passed the General Assembly almost unanimously, included a provision that could increase taxes as much as 50 percent on any business that files its taxes as a partnership, an LLC or an LLP. The new provision now requires all partnerships, LLCs and LLPs to pay the 1.5 percent personal property replacement tax on professional fee income *in addition* to the 3 percent personal income tax on distributive share income that each partner is already required to pay. This increase will have absolutely NO impact on state revenues or the state's budget deficit, since the replacement tax only benefits local governments. Furthermore, this provision could jeopardize future state revenues by forcing impacted businesses to reduce the profits that can

be distributed to partners and taxed at the personal income tax rate in order to compensate for the increased replacement tax liability.

The Illinois Secretary of State has proposed several changes to the state's franchise tax regulations under new proposed rules. The proposed rules would make the following changes:

- Apply a fee of \$25 *per name* for requests for searches by the name of the corporation's registered agent, president and secretary.
- Alter the current sourcing rules for business transacted and property located in Illinois.
- Codify an Illinois Appellate Court decision that makes all amounts transferred from a corporation's retained earnings or from any other entity in its stockholders' equity to its paid-in capital subject to all franchise taxes imposed by the Business Corporation Act.

The Chamber's Tax Institute issued a policy that was adopted by the Illinois Chamber board in June 2006, recommending the elimination or replacement of the franchise tax. The chamber believes the tax itself is considered outdated and complex, and creates excessive compliance costs for businesses.

The Tax Institute will be filing a formal comment letter on these proposed rules with the Joint Committee on Administrative Rules.

With the success of the Illinois Chamber's HR Illinois blog that we launched a few months ago, the chamber has expanded to include an Energy

Council and Tax Institute blog. These blogs will give you access to all the latest news about these sectors from our experts. Not familiar with either of these councils? The blogs are a perfect opportunity to get the basics on issues you might not be familiar with but could affect your company in the future. Look for more blogs to debut later this year.

Employer PPO Health Plans Under Attack

At its Sept. 14 meeting, the Joint Committee on Administrative Rules considered a proposed rule from the Illinois Department of Insurance that the Illinois Chamber believes dramatically revises regulation of preferred provider organizations or PPOs. These proposed changes will result in significant cost and quality consequences to employer health plans and the employees and dependents that are covered by a PPO plan. We believe these changes will also impact self-insured healthcare benefit plans.

Illinois Chamber Joins New Employers Coalition on Health Reform

The Illinois Chamber has joined with 19 other statewide chambers and employer organizations from across the country in an unprecedented alliance to bolster the employer community's voice in the federal healthcare reform debate. The group, Employers for Quality Health Care, is an independent coalition that is bringing a unique perspective to the table alongside national business groups like the U.S. Chamber of Commerce and the National Association of Manufacturers.

IBJ Business News

Challenge Unlimited celebrates 50 years

On Sept. 23, Challenge Unlimited Inc. celebrated 50 years of service to individuals with mental, physical and developmental disabilities. Formerly known as Specialized Services, Challenge Unlimited was established in 1959 by a group of parents of adult children with disabilities who were interested in receiving services after high school. Headquartered in Alton, Challenge employs a workforce of nearly 1,000 people in Illinois, Missouri and Wisconsin. Nearly half are individuals with disabilities and half are individuals without disabilities.

Throughout the years, Challenge has established two affiliate companies; Residential Options Inc. and Alpha Industries. Residential Options exists to provide a safe and positive living environment for individuals with developmental disabilities and mental illness. Alpha Industries exists to offer affirmative enterprise opportunities to individuals with disabilities as well as individuals with disadvantages. The emphasis of an Affirmative Enterprise is to offer a mix between individuals with and without disabilities and/or disadvantages and offer role model mentoring in a production service or service work setting.

Contractor working on Prairie State project

Quality Testing and Engineering Inc. of O'Fallon is testing the field construction material at the Prairie State Energy Campus in Washington County.

The testing is part of a general grading package involving 1.5 million cubic yards of ground. W.B. Koester is the general contractor for the grading project.

Bechtel Power Corp. has been contracted to oversee the construction. The plant should be operating in 2012.

AAIC welcomes architectural interns

AAIC inc. Architects welcomes the following professionals to the firm: Aaron C. Gallagher, architectural

intern with 11 years experience and a bachelor's in applied science in architectural technology from Southern Illinois University Carbondale; Rob Baker, architectural intern, also with a bachelor's of science in architecture from Southern Illinois University Carbondale; and Matt Highlander, architectural intern, with a bachelor's of science in architectural studies and a master's in architecture from Southern Illinois University Carbondale.

Stoecklin elected president of statewide workforce partnership

The Madison County Employment and Training Department announces that its executive director, David Stoecklin, has been elected president of the Illinois Workforce Partnership. The IWP is the statewide association of directors of the workforce development system. The goals of the IWP are to promote and strengthen the employment and training system, to coordinate their services with those of economic development and to develop linkages and coordinate services among the various workforce development partners.

Shimkus welcomes SIUE economic development grant

Southern Illinois University Edwardsville's efforts to help local communities' economic development have received a boost in the form of further federal funding for the university's Southwest Illinois Advanced Manufacturing Center, U.S. Rep. John Shimkus (R-Illinois) announces.

The \$158,527 in federal funding is coming from the U.S. Department of Commerce's Economic Development Administration.

SIAM performs applied and basic research and workforce development activities for both established and start-up enterprises. The center assists with prototype design and fabrication, product development, process organization and new technology development. EDA provides matching funds for SIAM projects, allowing companies to leverage their research and development investments.

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Continued from page 1

opportunity we have here. You just can't let something like that slip away."

Holland says the veto puts the project in jeopardy and that the development team is currently evaluating the efficacy of the STAR bond legislation to determine if the project is still feasible - or if some other form of economic development incentive might be more useful, considering all the modifications that had to be made along the way.

This past spring, the bill met with staunch opposition from area mayors and even State Rep. Jay Hoffman (D-Collinsville) and State Sen. Bill Haine (D-Alton) who represent the district in which the project would be built. As a result, major modifications were made to make it more

palatable and to get Hoffman and Haine to drop their objections.

Holbrook says they worked with 100 different groups and with the Illinois Department of Revenue in seeking to work out disagreements. The result, he says, was adding about 170 pages to the bill and making significant concessions.

One change was that any business that relocated from anywhere in a 25-mile radius of the STAR district would not be counted in the calculations of STAR revenues.

Another was that auto dealers would not be included.

A third amendment was to require an impact analysis that would be commissioned by both the host municipality and the Illinois Department of Revenue to determine if there would be any negative

impact on any of the surrounding area.

And a fourth change was the addition of a public hearing to be held by the Illinois Department of Commerce and Economic Opportunity, to which everyone would be invited to attend and make comment.

Taken altogether, the changes have made the STAR district less effective at attracting the types of tenants envisioned by the developers and have put the entire project in jeopardy, according to Holland. Holland says they originally chose to pursue this new legislation rather than the creation of a TIF district because the STAR district would not have any adverse impact on the school district. But, with all the modifications that have had to been made to get the bill passed and signed by the governor, it may make more sense to pursue a TIF district and/or a business

district. TIF districts devote property tax increments to the payment of development costs and cities can adopt a local sales tax of up to 1 percent under the business district legislation. The two can be used in tandem, and both are commonly used throughout the state of Illinois.

Holland says he is leery of trying to garner the support in the House and Senate to override the governor's veto. But as of press time, the development team had not yet come to a conclusion about what to do.

"We're still in the process of evaluation," Holland said. "We're still hopeful that we can make something work, but it does make it a lot more difficult. We still have people running numbers and talking to potential users based on what we've got. Will it work or not? I can say the jury is still out. But we're still hopeful that it will work."

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