

Commentary

In defense of free markets: Don't look to muddle-headed government policies as the answer

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

Being an economist automatically makes you the target of hackneyed jokes (laid end-to-end economists cannot reach



Hafer

a conclusion; preferences for one-armed economists, etc.). Sort of like being an engineer, an accountant or a lawyer. Now, if you also believe in free markets, you now are in for a double dose of ridicule. After all, isn't it that free-market mentality that got us into the recent mess?

The belief that free markets don't work is not new. The last time this position came under such severe attack was following the Great Depression. The crash of the stock market, a tanking economy and unemployment that reached 25 percent were enough for many to pronounce free market capitalism as dead. The New Deal was born, new and sweeping regulations were enacted and a massive federal bureaucracy arose in Washington.

Lost in this paradigm shift, from markets to increased government intervention, was the fact that what could have been a run-of-the-mill recession in late 1929 was transformed to a depression by muddle-headed government policies enacted by the very officials entrusted with saving the day.

Milton Friedman and Anna Schwartz, in their *Monetary History of the United States: 1963-1964*, convincingly show that failed Federal Reserve actions exacerbated the downturn. They reduced the money supply just when they should

have been boosting it. They also took no action to curtail widespread bank closures that further depressed the supply of money and credit in the economy. They had the tools and the legal authority to do so, but they didn't.

The Fed wasn't alone in making things worse. Congress got did its part, most notably passing the Smoot-Hawley Act. This act raised insurmountable trade barriers to foreign goods. When other nations retaliated, international trade basically ceased and the economy spiraled even further downward.

After World War II many forward-thinking individuals looked to the planned economies of Europe and saw our future. Unfortunately, the evidence has not supported the attitude that more centralized planning improves economic performance. While we prospered, centrally planned economies lagged. And of course, one of the biggest experiments in central planning - the old Soviet Union - collapsed.

Still, there remained some who held that free markets are the most efficient mechanism by which goods and services are allocated. The Austrian economist Friedrich Hayek, most popular for his 1944 polemic *The Road to Serfdom*, argued that the myriad of transactions taking place throughout the economy were so diffuse that no one organization - not even the fastest computer in a governmental office - could determine the "correct" price at which shoes, bonds or plumbers' services should be sold.

Hayek's intellectual heir, Milton Friedman, pushed the idea. Left to its own devices, the market will figure it out: Bad doctors, plumbers or shop owners will lose business to those more able in what they do. It was simple logic to suggest that after one bad visit to a restaurant, you wouldn't return. With sufficient information, little regulation was necessary.

Friedman's intellectual heirs pushed such ideas into analysis of financial

markets. If financial markets are "efficient," then current stock prices reflect all the relevant information that has any bearing on that stock. If not, investors could profit by buying the stock (or shorting it). But success breeds imitation and others will follow suit. What may have been a short-term gain is quickly erased. And the actual behavior of stock prices did not reject this characterization.

Some in this camp even suggested that "bubbles" in financial markets could not exist. But stock markets over time and around the world have shown that, at times, investing becomes more like gambling and less like a scientific pursuit of winners and losers. But the quarrelsome response is: Is a bubble the outcome of market behavior or sparked by some intervention that allows the market to veer off?

Our recent near-Depression experience breathed new life to free-market naysayers. Consider a currently popular explanation for the crisis: Mortgage lenders ran amok making billions while foisting off any downside risk onto others. Of course, most lenders were simply satisfying the borrowers' desires who - in the face of historically low borrowing costs - believed the property, any property, would only appreciate. If lenders hadn't operated so unchecked, the story goes, we wouldn't have had the financial and economic crisis.

But lenders responded rationally to incentives to extend loans to increasingly risky customers. Government policies aimed to boost home ownership without

concern for downside risk. And thanks to the Greenspan Fed, borrowing rates for credit were the lowest in 50 years. With rates so low and regulators easing up on lenders' practices, wouldn't you take a chance on someone whose possibility of default is high? Besides, regulators overseeing the rapid deployment of financial instruments that allow lenders to offset such default risk - the so-called mortgage backed securities - also were being pressured by the government not to rock the economic boat.

Looking forward, what is the optimal way to organize our economic interactions? Government must play a role, one of establishing the rules of the game. We must respect others' property rights; monopolies are not a desirable as competitive markets; a sound monetary system promotes exchange. Do these sporadic jolts of irrational exuberance mean that markets should be regulated so heavily that the probability of repeating such events is zero? This hasn't worked in the past and will not work in the future.

Any government foray into setting new rules must not impinge our economic freedom. The European model is not one to which we should aspire. Even with all its messiness, distributing what we produce, our labor and our ideas through a free market remains the best choice for future prosperity.

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.

IBJ Business News

Greater Gateway's Suguitan earns CAE credential

The American Society of Association Executives announces that Albert M. Suguitan, president and chief operating officer of the Greater Gateway Association of Realtors, has earned the Certified Association Executive credential. The CAE is the highest professional credential in the association industry, earned by fewer than 5 percent of all association professionals.

To be designated as a CAE, an applicant must have a minimum of three years experience in nonprofit organization management, complete a minimum of 75 hours of specialized professional development, pass a stringent examination in association management and pledge to uphold a code of ethics. To maintain the certification, individuals must undertake

ongoing professional development and activities in association and nonprofit management.

First Mid-Illinois Bank & Trust ranks number four statewide in SBA lending

According to the Illinois District Office of the Small Business Administration Department, First Mid-Illinois Bank & Trust was the 4th-largest provider of SBA loans in the state of Illinois through Nov. 30, 2009, the second month of its fiscal year.

For the fiscal year ending Sept. 30, 2009, First Mid-Illinois Bank & Trust was the 10th-ranked financial institution by number of SBA loans. These loans include a variety of SBA programs such as the new America's Recovery Capital (ARC) loans, Rural Lender Advantage, Small Loan Express and Guaranty loans.

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ARCHITECTURE

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them kind of half baked.' So, when we can find those educational leaders who have had that kind of experience, then we have someone we can partner with to go through a planning process - a design process that's going to result in something that we're all going to be proud of at the end of the day. I guess you call that experience," he added.

Young says he thinks that the mistake many firms make is to try to be generalists, doing a bit of everything rather than specializing in certain types of building.

"I wouldn't want to design a surgery center, nor would I want to be a patient to be operated on in that surgery center," Young said. "But if it's a school or a college, if it's a community college, there are a lot of lessons learned that you can apply to get through these difficult times. The lesson is to stay with what is in your wheelhouse," added Young. "Stay within those project types that are the ones that demand the most experience and expertise."

FGM Architects is another firm that does a lot of public work. Tim Kwiatkowski, vice president and southern regional manager for FGM, says the

short-term outlook for public architecture in the state of Illinois is uncertain but could be resolved soon, opening up lots of opportunities.

"The needs across the state of Illinois are well known and well documented, especially with institutions such as schools and universities," Kwiatkowski said. "The biggest issue at this time is how and when will the needs be funded. There is word of the state of Illinois completing a bond sale in February that will create funds for some of the projects that have been long awaiting funding. If this occurs, I believe that the confidence within these institutions may be boosted and we may see some movement in either referendums being placed on ballots or finding alternative ways of funding projects. The public sector clients have been holding back on completing updates or upgrades as well as new space needs that are necessary for them to maintain their overall operability," he added. "Many of these clients have to move on with their projects in some way to prolong the life of their facilities."

Bill Reichert, president and chief executive officer of EWR Architects in

Fairview Heights, says 2009 was a rough year for a lot of architectural firms and 2010 doesn't appear to be shaping up to be a lot better. A dearth of projects has intensified competition to the extreme.

"We're seeing people from five states out coming in to compete," Reichert said. "Customarily, an RFP would probably attract a dozen architects, maybe 15. Over the past year, we've thrown our hat into the ring on projects where there are 48 firms after it - 53 in one case - and from five or six states. The middle sort of dropped out over the course of the past 18 months, and it looks to me like that is going to continue into 2010."

Reichert says that commercial building has all but stopped as banks have tightened lending policies. One hundred percent loans are a thing of the past and even 70 percent loan to value can be hard to come by, he says. This has caused a lot of projects to be dropped or put on the shelf, waiting for things to turn around.

"The backlogs of architectural firms have dwindled radically," Reichert said. "Three years ago I would say most firms weren't really in step if they had less than a year backlog. That's just the way it was. Now, a significant percentage of firms

maybe have just a month or two."

Cal Morris, principal of AAIC, agrees with Reichert. He says funds have dried up in both the public and private sectors, and most firms are existing from project to project.

"I don't hold onto any hopes that 2010 is going to be any better than 2009," said Morris. "In fact, I would say that many folks in my industry and the construction industry think it may be worse."

IBJ Business News

Stephens receives real estate honor

Lisa Stephens, assistant city manager and economic development director for the city of Greenville, has been recognized for completing the professional development series for the CoreNet Global Master of Corporate Real Estate designation. The CoreNet Global MCR professional designation is part of a comprehensive career development program for the corporate real estate industry.

Collinsville Building and Loan appoints board chairman, elects directors

The board of directors of Collinsville Building and Loan Association has appointed director Keith H. Throm as chairman of the board. Throm has been serving as a director since 1999.

Richard R. Cain Sr. was elected as director emeritus. Cain has served continuously as a director since 1979. Richard R. Cain Jr. was elected as a new board member.

LINC Inc. gets education grant

U.S. Rep. Jerry Costello (D-IL) announces that Belleville-based LINC Inc. - the Living Independently Now Center - has been awarded a \$181,921 Center for Independence Living Recovery Act Program grant from the U.S. Department of Education. The five-year grant will be used to expand services to individuals with significant disabilities in order to maximize their independence.

Leadership Council welcomes Lockton, MMR&G

The Leadership Council Southwestern Illinois announces it has added Kansas City, Mo.-based Lockton and Belleville-based Mathis, Marifan, Richter and Grandy (MMR&G) to its growing list of members. Representatives from the two companies will join other leaders in the business, industry, labor, education and government sectors that work together to encourage business investment and development in Southwestern Illinois.

Lockton, the world's largest, privately owned, independent insurance broker, is a 34-year-old company that has offices across North America as well as in Europe, Asia and South America. David Arvola, the senior vice president of Lockton's St. Louis office, will serve as the firm's representative on the council.

Pat Mathis, who helped establish MMR&G in 1984 and currently serves as its president, will represent the law firm on the council. MMR&G, which also has offices in Clayton, Mo. and Nashville, Ill., specializes in business law, taxation, estate planning, employee benefits, banking law, employment law, real estate law, bankruptcy and commercial and tort litigation.

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Southwestern Illinois Commercial Real Estate Transactions

The Illinois Business Journal is proud to publish commercial real estate transactions recently completed by commercial brokers across Southwestern Illinois.

Alton

- ◆ Noble Land Trust sold a 10,400-sq.-ft. retail/warehouse building at 3450 Homer Adams Pkwy. to JGDD Alton LLC. Johnson Properties Inc. represented the seller.
- ◆ RiverBender.com purchased the 34,500-sq.-ft. former Meridian Bank building from the FDIC for its office headquarters and the Alton Community Center. RE/MAX River Bend represented both parties.

Belleville

- ◆ Wagner Motor Co. sold a 20,015-sq.-ft. retail building at 4400 North Belt West to Rosco Investments LLC. BARBERMurphy Group represented both parties.
- ◆ Rosco Investments LLC leased 4,000 sq. ft. of office space at 4400 North Belt West to Abbott EMS. BARBERMurphy Group represented both parties.
- ◆ Cross Oil Co. sold a 4,695-sq.-ft. industrial property at 1201 Centreville Ave. to Marco Investments. BARBERMurphy Group represented both parties.
- ◆ Regions Bank, Trustee sold a 2,000-sq.-ft. office building at 2900 Frank Scott Parkway West, Ste. 908, (908 Copper Bend) to Loric Enterprises LLC. Johnson Properties Inc. represented both parties.
- ◆ Dr. Guy Burrows and Cynthia Burrows sold a 2,600-sq.-ft. office building at 100 North Jackson to Anne Fohne Keeley. Johnson Properties Inc. represented the seller.

Columbia

- ◆ West Shore Group Inc. leased 3,000 sq. ft. at 324 Southport Dr. from Southport One LLC. Kunkel Commercial Group Inc. represented both parties.

Edwardsville

- ◆ Plummer General LLC leased 257 sq. ft. of office space at Mark Twain Plaza I, 101 West Vandalia St., Ste. 305-G, to ROI Realty Partners Inc. Johnson Properties Inc. represented both parties.
- ◆ Benson & Graham Attorneys leased 900 sq. ft. of professional office space at 123 Rottingham, Ste. B., from River Bend Developers. RE/MAX River Bend represented both parties.
- ◆ LabCorp Laboratory Clinic leased 1,658 sq. ft. of professional office space at 102 Rottingham, Ste. 2, from River Bend Developers. RE/MAX River Bend represented both parties.

Glen Carbon

- ◆ First Community State Bank leased 1,192 sq. ft. of retail space at 4215 South Illinois State Rte. 159, Ste. 2, to Syd's Shoes, Inc. Johnson Properties Inc. represented both parties.
 - ◆ Children's Therapy SPOT leased 1,250 sq. ft. of professional office space at 7A Ginger Creek Village from Ginger Creek Properties Inc. RE/MAX River Bend represented both parties.
- David Viox with AAdvantage Insurance leased 1,550 sq. ft. of professional office space at 10 Ginger Creek Village from Ginger Creek Properties Inc. RE/MAX River Bend represented both parties.

Granite City

- ◆ Dial Properties leased 1,400 sq. ft. of office space at 5529 Dial Dr. to CRST. BARBERMurphy Group represented both parties.

Highland

- ◆ Kenneth Ernst sold a 4,182-sq.-ft. restaurant at 802 9th St. to David B. Courtois and Julia A. Courtois. Johnson Properties Inc. represented the seller.

Madison

- ◆ State Street Investments Inc. leased 39,064 sq. ft. of warehouse space at 10 Fox Industrial Park to Interco Trading Co. BARBERMurphy Group represented both parties.

Maryville

- ◆ Retail Place LLC leased 1,200 sq. ft. of retail space at 2921 North Center St. to Laboratory Corp. of America. BARBERMurphy Group represented both parties.

O'Fallon

- ◆ C.T. Moore LLC sold a 4-unit, 3,400-sq.-ft. apartment building at 411-417 Nancy Dr. to Randy and Angela Spaeth. BARBERMurphy Group represented both parties.
- ◆ C.T. Moore LLC sold a 4-unit, 3,400-sq.-ft. apartment building at 402-408 Donna Dr. to James W. and Shirley K. Spaeth. BARBERMurphy Group represented both parties.

- ◆ Computer World Services Corp., a Virginia Corp., leased 2,320 sq. ft. at 640 Pierce Blvd. from Amelia Wesley LLC. Kunkel Commercial Group Inc. represented the landlord and Grubb & Ellis represented the tenant.

Swansea

- ◆ 159 Developers Inc. leased 19,428 sq. ft. of office space at 1 Bronze Pointe to Multimedia Midwest LLC. BARBERMurphy Group

- represented the lessee.
- ◆ Two Bronze Point Investors LLC purchased a 3,486-sq.-ft. office building at 2 Bronze Pointe from Regions Bank f/k/a/Magna Trust Co. Johnson Properties Inc. represented the buyer and Kunkel Commercial Group Inc. represented the seller.
- ◆ LINC Inc. leased 3,600 sq. ft. at 1 Emerald Terrace from Riddihill Inc. Kunkel Commercial Group Inc. represented both parties.

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Governor Quinn announced a \$1.7 Million Grant for the Illinois Community College Sustainability Network. Accepting the Grant is Georgia Costello Ph.D., President of Southwestern Illinois College and Co-Chair of the Illinois Community College Sustainability Network.

"Our success is based upon the partnerships we create. By adding Ittner Architects to our team, we have added the proven experts who share our passion and vision for the future."

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