

Counterpoint: Putting Americans Back to Work

Why government spending does not stimulate economic growth: answering the critics

Proponents of President Barack Obama's \$787 billion stimulus bill continue to insist that the massive government bailout



Riedl

played a decisive role in moving the economy out of the recession. Yet assuming no destructive government actions, the economy's self-correction mechanism was widely

expected to move the economy out of recession in 2009 anyway.

With a parade of "stimulus" bills the past two years (going back to President George W. Bush's tax rebate in early 2008), it was entirely predictable that some would link the expected end of the recession to whichever stimulus bill happened to come last.

Indeed, President Obama's stimulus bill failed by its own standards. In a January 2009 report, White House economists predicted that the stimulus bill would create - not merely save - 3.3 million net jobs by 2010. Since then, 3.5 million more net jobs have been lost, pushing the unemployment rate above 10 percent.

Undeterred by repeated stimulus failures, President Obama is calling for yet another stimulus bill. There is every reason to expect another round to fail as miserably as the past ones, and it would bury the nation deeper in debt.

The economic theory behind the stimulus builds on the work of John Maynard Keynes eight decades ago. It

begins with the idea that an economic shock has left demand persistently and significantly below potential supply. As people stop spending money, businesses pull back production, and the ensuing vicious circle of falling demand and production shrinks the economy.

Keynesians believe that government spending can make up this shortfall in private demand. Their models assume that - in an underperforming economy - government spending adds money to the economy while taxes remove money from the economy, and so the increase in the budget deficit represents net new dollars injected. Therefore, it scarcely matters how the dollars are spent.

Keynes is said to have famously asserted that a government program that pays people to dig and refill ditches would provide new income for those workers to spend and circulate through the economy, creating even more jobs and income.

Economic data contradict Keynesian stimulus theory. If deficits represented "new dollars" in the economy, the record \$1.2 trillion in FY 2009 deficit spending that began in October 2008 - well before the stimulus added \$200 billion more - would have already overheated the economy. Yet despite the historic 7 percent increase in GDP deficit spending over the previous year, the economy shrank by 2.3 percent in FY 2009.

Moving forward, the important question is why government spending fails to end recessions. Spending-stimulus advocates claim that Congress can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: From where does the government acquire the money it

pumps into the economy?

The answer: Every dollar Congress injects into the economy must first be taxed or borrowed out of the economy.

Although it cannot immediately increase economic growth, government spending can have a long-term impact. Taxes can affect growth, although not for the reason many people believe. Many tax cutters commit the same fallacy as do government spenders when asserting that tax cuts spur economic growth by "putting spending money in people's pockets."

Similar to government spending, the tax-cut cash does not fall from the sky. It comes from reduced investment and a higher trade deficit (if financed by budget deficits) or from government spending (if offset by spending cuts).

However, certain tax cuts can add substantially to productivity. High marginal tax rates - defined as the tax on the next dollar earned - create a disincentive to engage in those activities. Reducing marginal tax rates on businesses and workers will increase incentives to work, save, and invest.

These incentives encourage more business investment, a more productive workforce by raising the after-tax returns to education and more work effort, all of which add to the economy's long-term capacity for growth.

Tax rebates fail to increase economic growth because they are not associated with productivity or work effort. No new income is created because no one is required to work, save or invest more in order to receive a rebate. In that sense, rebates that write each American a check are economically indistinguishable from

government spending programs.

Such rebates in 1975, 2001 and 2008 all failed to create economic growth. By contrast, large reductions in marginal tax rates in the 1920s, 1960s and 1980s were each followed by surges in economic growth. More recently, the 2003 tax rate reductions immediately reversed the job losses, sinking stock market, declining business investment and sluggish economic growth rates that had followed the 2000 recession. These gains continued until unrelated economic developments brought the most recent recession in December 2007.

All recessions eventually end. Yet it would be fallacious to credit the stimulus bill for any economic recovery that inevitably occurs in the future. According to Keynesian theory, a \$1.4 trillion budget deficit should have immediately overheated the economy. According to the White House, the stimulus should have created 3.3 million net jobs.

Instead, the economy remained in recession and 3.5 million more net jobs were lost. By every reasonable standard, the stimulus failed.

Government stimulus spending is not a magic wand that creates jobs and income. Repeated failed attempts in America and abroad have shown that governments cannot spend their way out of recessions. Focusing on productivity growth builds a stronger economy over the long term - and leaves America better prepared to handle future economic downturns.

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Spotlight on Southwestern Illinois Commercial Real Estate

Paul Murphy, Principal, BARBERMurphy Group

By KATE GENO

The BARBERMurphy Group is a commercial real estate brokerage firm established in 2004 by Wayne Barber Jr., SIOR and Paul Murphy. It offers a full spectrum of commercial, investment and industrial properties and brokerage services



Murphy

in Southern Illinois. Currently, BARBERMurphy Group has 290 listings

in 40 municipalities and 12 counties, fulfilling the company's slogan "We're All About Southern Illinois."

Paul Murphy, principal of the company, has more than 18 years of commercial real estate experience. He specializes in the marketing and disposition of investment and commercial properties.

Murphy's featured properties in the region include the former Dynege Generation building at 3890 North Illinois Street in Swansea. The 9,346-square-foot building is available for commercial, retail or office use and is located on Illinois Rte. 159. Additionally, a 3,900-square-foot building is available to lease at 5003 North Illinois Street in Fairview Heights. It will

accommodate office or retail and currently has six private offices and a conference room. Tenants can lease the entire building or there is the option to divide.

Apartment buildings are for sale in the heart of O'Fallon, located on North Cherry in the Fairwood West subdivision. The eight properties include two four-family buildings with one bedroom/ one bath units and six townhouses featuring two bedrooms and 1.5 baths. The owner will divide.

Brokerage of commercial properties throughout Southern Illinois is BARBERMurphy Group's core business. Directly related services such as property entitlements, economic incentives, zoning

and tax issues are also provided.

The company now employs 14 licensed brokers. Each broker regularly covers a 12-county territory and specializes in properties by type and geographic area to better assist clients. Primary clients are locally owned small businesses and developers in need of additional space to lease or purchase.

Murphy is optimistic about the market's outlook. He says site selection studies in the region are increasing; investors just need more confidence in the economy before moving forward. The company's office leasing and industrial business is steady and apartment building sales are doing well.

Terry Johnson, President, Johnson Properties Inc.

By KERRY L. BEISER

Founded by Terry Johnson in 1996, Johnson Properties Inc. is a full-service commercial real estate firm. JPI expanded its scope in the region by acquiring the Kenneth Johnson Agency in 2007 and merging the



Johnson

two companies. Johnson Properties now has 12 full-time commercial brokers, three support staff and more than 275 commercial listings throughout the Southwestern Illinois region.

The company specializes in commercial and industrial real estate,

development land sales, build-to-suit projects, 1031 exchanges and investment properties throughout the area. JPI's main focus is to provide brokerage services of commercial properties to small and large corporations - and to help landowners sell their land to prospective developers when the time is right.

In April 2009, Johnson joined Robert Plummer of Edwardsville and formed the Plummer Johnson Group. The company manages Class A office buildings in Madison and St. Clair counties. To date, five professionals have been hired to provide accounting, maintenance and administrative support. So far the company manages over 400,000 square feet of office space.

In June 2009, Johnson added a new self-storage division headed by industry expert Kevin Bowman. Bowman is a 14-

year veteran of the self-storage business and works with new and existing projects throughout Illinois. Services offered include brokerage services, feasibility studies, management and site selection.

Recent JPI transactions include a 25,000-square-foot office lease to Vatterott College in Fairview Heights, a 104,000-square-foot retail building for a Rural King store in Collinsville and a 32,000-square-foot multi-purpose building to Vetta Sports in O'Fallon.

In April, the company will move into its new location at 314 Fountains Parkway next to Shogun's Japanese Steakhouse at the Fountains at Fairview. Johnson says the new space will feature a state-of-the-art office environment complete with three video screens and an open bullpen for sales collaboration for its brokers.

IBJ Business News

Scheffel & Co. welcomes four

Jonathan Frederick, Kathryn Tandy, Lisa Winkler and Joel Bradley have joined the staff at Scheffel & Co. PC as staff accountants.

Answer Midwest named best in customer service

Alton-based Answer Midwest Inc. has been selected by *St. Louis Small Business Monthly* readers for providing the best customer service in St. Louis.

Mansouri joins Horner & Shifrin

Ardie E. Mansouri has joined Horner & Shifrin Inc. as an engineer in the structural engineering department.

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Spotlight on Southwestern Illinois Commercial Real Estate

Dave Kunkel, Owner/Broker, Kunkel Commercial Group

By KATE GENO

Dave Kunkel founded Kunkel Commercial Group in April 2007 after 20 years of experience in the Southwestern Illinois real estate market. The company's growth has been steady since its inception. In 2009, the company doubled its transaction volume from the previous year and processed \$13 million in transactions.



Kunkel

The company's goal is to provide personalized real estate services for clientele in St. Clair and Madison counties. Services include tenant and landlord representation, property management, build to suit projects and investment properties. Kunkel and his team of seven agents strive to keep their clients continually apprised of their marketing efforts and the state of the real estate market. To fulfill this goal, they have developed a marketing report that is sent to each property owner. The report features information such as the number of prospects and showings, Internet activity and exposure results and a current market outlook.

Kunkel himself is currently developing a \$6.5 million assisted living facility in Highland that will be complete in April. Legacy Place features 56 units consisting of one and two bedroom apartments. It is 15 percent pre-leased as of February, says Kunkel. Michelle Jackson was recently hired as the administrator of the facility.

Kunkel Commercial Group also offers leasing opportunities throughout Southwestern Illinois. The Opera House Building at 220 East State Street in downtown O'Fallon has been totally renovated and features a loft atmosphere with high ceilings and exposed brick. The second floor features spaces starting at 500 square feet.

Winchester Plaza is a 46,000-square-foot retail/office strip center at Illinois Rte. 159 and Frank Scott Parkway in Fairview Heights. Kunkel Commercial Group was instrumental in leasing to The Pasta House, Chubby Knuckles and the Rock N Roll Dueling Piano Bar. New tenants can lease from 1,200 to 3,600 square feet.

The 22-acre site of the former Berman Taylor Feed and Fertilizer Co. was recently renovated into a mixed-use industrial space. The anchor tenant is WinWater Works Co. of St. Jacob, occupying approximately 30,000 square feet as a distribution/sales center. The remaining space is available for lease.

Dennis Dugan, Co-Owner, RE/MAX River Bend

By KATE GENO

Dennis Dugan has been co-owner of RE/MAX River Bend since 2000 and was instrumental in initiating and developing its commercial division. He possesses 20 years of experience in commercial sales, development and finance. As a property owner and developer, Dugan



Dugan

is involved with all phases of new and existing developments including design, planning, construction management, sales and leasing.

RE/MAX River Bend is based in Alton and employs 24 agents. The company specializes in retail, office and commercial properties in the Southwestern Illinois region. According to Dugan, a benefit that RE/MAX offers is the ability to meet the global real estate demands of its clients. The RE/MAX international network connects brokers around the world to broaden the scope of real estate opportunities for clients.

In 2009, Dugan represented the FDIC in

the sale of the former First National Bank-Meridian Bank building in Alton. The new owner is offering office space available for lease and is developing a 20,000-square-foot community center on the first two floors of the building. This will be an asset to downtown Alton, says Dugan.

RE/MAX River Bend also facilitated the procurement and sale of property for Tractor Supply on Homer Adams Parkway in Alton. An additional 4.16 acres of prime land is available for sale or development next to Tractor Supply. This location is well suited for a hotel, restaurant, retail center or a combination, says Dugan. It is positioned at a signalized

intersection with proximity to major highways and the nationally-recognized Gordon Moore Park.

The Parkway Professional Center in Glen Carbon is a new development offering five lots for office/retail space off Illinois Rte. 157 in the expanding Ginger Creek area. An 8,640-square-foot brick building is set for lot 1 with options for additional build-to-suit offices for a total of 22,590 square feet.

In Edwardsville, four executive office buildings are located on Illinois Rte. 157 with a total of 19,000 square feet. Office spaces range from 900 to 4,750 square feet.

David Wittenauer, Senior Advisor, Grubb & Ellis|Gundaker Commercial Group

By KATE GENO

David Wittenauer represents various commercial buildings and sites in Fairview Heights, O'Fallon, Edwardsville, Glen Carbon, Troy, Columbia and Waterloo. His real estate background encompasses over 10 years working in the Southwestern Illinois market. He has represented Grubb & Ellis|Gundaker Commercial Group for more than three years, helping clients with leasing, development and disposition services. Wittenauer's primary objective is to be a strategic real estate advisor for property owners. Grubb & Ellis|Gundaker Commercial Group is currently marketing and developing multiple projects throughout Southwestern Illinois, including several



Wittenauer

properties located along the Green Mount Road corridor in O'Fallon and Shiloh, 35 acres of development land off Hwy. 50 in O'Fallon and the Edwardsville Corporate Centre.

The opportunities along Green Mount Road include retail and office sites, some existing sites and others that are still under construction. An 11,000-square-foot retail and office strip center just south of Frank Scott Parkway is near completion. Green Mount Corporate Center is a 23,000-square-foot office development next to the new convention center. Shiloh Commons, located at the Green Mount Road and Indian Springs intersection, features two 1.6-acre lots for bank, office, retail or medical use. A 15-acre lot that the owner will divide for retail use is located at Green Mount Road and Central Park Plaza.

Additional areas of potential growth include 35 acres of mixed-use development land in O'Fallon geared toward office, retail or senior living. The Edwardsville Corporate Centre, located

off Interstate 55 and Illinois Rte. 143, is another important project for the company that features a 165-acre, mixed-use site for office, retail and light industrial.

According to Wittenauer, the economic downturn has opened up opportunities for some businesses to purchase properties at bargain prices and to gain market share.

For businesses that are in a position to expand in 2010, he says there are many opportunities to acquire property and lock in interest rates at historic lows.

With more than 130 owned and affiliated offices worldwide, Grubb & Ellis|Gundaker Commercial Group offers services in all aspects of real estate.

IBJ Business News

SIUE English professor receives NAACP award nomination

Southern Illinois University Edwardsville assistant English language and literature professor Adrian Matejka will share billing with actors Laurence Fishburne, Vanessa Williams, Denzel Washington and other noted celebrities at the 41st Annual NAACP Image Awards.

Matejka has received an Image Awards nomination for an Outstanding Literary Work in Poetry for his book *Mixology*. The book has already been

selected for the 2008 National Poetry Series and won an Illinois Arts Council Literary Award.

Midland States Bank acquires 12 AMCORE bank locations

Midland States Bank of Effingham and AMCORE Bank have entered into a definitive agreement to purchase 12 offices in eight Northern Illinois communities. This agreement is subject to regulatory approval and is expected to close within the first quarter of 2010.

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Opinion

Recession is time to enhance marketing strategy, not eliminate it

A.G. Lafley, chairman and former CEO of Procter & Gamble, once said, "The best time to gain ground on your



Beiser

competitors is when they are retreating." When you see your competitors hiding under a rock and keeping their foot on the brakes with their marketing strategy, the worst thing you can do is find your own rock and do the same.

Corporate decision making during lean economic times - when it comes to advertising, at least - often seems to be similar to the "rubbernecking" behavior of motorists on a busy thoroughfare. How many times have you encountered a sudden snag in traffic that has cars log-jammed for blocks, or even miles?

When you finally inch your way up to the reason for the slowdown, it frequently isn't even a crash or other serious calamity. It could be a vehicle with a flat tire, minor roadwork or simply a motorist parked on the shoulder, accompanied by a state police car on a routine traffic stop.

There are indeed similarities in motorist rubbernecking and corporate rubbernecking. The behavior, in many ways, can be the same - and equally as non-productive and nonsensical. In the above example, the "slam on the brakes" behavior had a ripple effect on everyone who follows. A knee-jerk assumption - and reaction - resulted in a needless slow-up.

That same type of knee-jerk behavior, in many business sectors, is occurring today. Companies that saw a downturn in the economy 12 to 15 months ago slammed on the brakes, if you will, with their investment in advertising and in marketing for new business. The word "investment" rather than "expense" is

used intentionally here. This is another misconception that often plays itself out during leaner economic times. Too many companies, large and small, make the mistake of ceasing or severely curtailing their marketing efforts because they see advertising as an expense rather than an investment in needed future business. Their marketing priorities, in knee-jerk fashion, are reduced to a line item on the budget that's as important as toner for the copier.

Consider data from a McGraw-Hill Research study of more than 600 businesses. The study found that businesses who continued advertising during the previous two economic recessions saw: 1) higher sales growth during the recessions and in the following three years; 2) increased market share 2.5 times the average for all businesses in the post-recession; and 3) a 256 percent increase in sales over those that had cut back on advertising.

Interestingly enough, a similar study by

the Strategic Planning Institute illustrated that during economic expansion in 2002, although 80 percent of businesses increased their advertising spending, there was no improvement in their market share.

Sure, companies need to pull back on their expenses during periods of economic uncertainty. But advertising shouldn't be considered an expense. If you've got fewer clients coming through the door, does it make sense to stop trying to recruit new ones?

A recession provides a unique window of opportunity for investing in a strategy that will pay off in spades - in solidifying a company's existing client base and in gaining new clients. Think about it logically: If your many of your competitors are "rubbernecking," wouldn't it make sense to do differently?

Kerry L. Beiser is president and chief executive officer of the Illinois Business Journal. She can be reached at kbeiser@ijonline.com.

Agencies are playing CYA game, not looking out for people

Last month, Col. Thomas O'Hara, commander of the St. Louis District, U.S. Army Corps of Engineers, made a presentation to the Southwestern



Ortvals

Illinois Flood Prevention District Council. He spent quite a bit of time going over the findings regarding deficiencies with the Wood River and Metro East Sanitary District levees, delineating the problems and costs associated with each.

The Wood River levee, he said, needed repairs and improvements totaling \$73 million to reach the 100-year standard and \$111 million to reach the 500-year level. That did not include modifications that are necessary due to poor design by the Corps when the lock and dam was moved down river in the 1980s.

Repairs to the MESD system would be more extensive and more costly: \$132 million to reach the lower standard and \$159 to reach the higher one.

Somewhere in the questioning, O'Hara let slip an important point. The Corps used to design systems to a 1.3 level

of safety. Essentially what that means is that once all the data is gathered and shoved into one end of the formula, an answer comes out the other side that tells the Corps what is minimally necessary in terms of structural and mechanical design to do the job. Rather than do the minimum thought to be necessary, the Corps would draw its plans with a 30 percent safety factor in mind. If, for example, the data pointed to constructing a levee that was 50 feet high, the Corps would build it to say 60 feet in order to provide for the unforeseen.

That makes sense, doesn't it? As the Corps' spokesman said, "You wouldn't want to put 100 people on a plane that was only capable of carrying 100 people, would you?" No, I think we can all agree that skating along the edge is not a good life strategy.

But the Corps doesn't design to 1.3 anymore. Since Katrina, it raised its standard to 1.6. It's not that the New Orleans levee system was designed and maintained to the 1.3 level and failed anyway. The failure was the result of lousy design...doing things like building levee walls on foundations of peat and constructing levees out of sand and silt. Most experts agree that if the system had been designed correctly, it would

have held up to Katrina.

In the aftermath of Katrina, the Corps got mauled by Congress and the press. As a result, it raised its load margin to 1.6. Frankly, the Corps just plain screwed up and it had to do something. Raising its safety standard was a good PR ploy. Who's against safety? Can you ever be too safe?

I think it's just a game of Cover Your Ass. And there's a lot of that going around.

Despite President Bush's declaration that director Michael Brown was doing a "heck of a job," the Federal Emergency Management Agency performed horribly in the Katrina disaster. Brown, for example, didn't even know that thousands of people were stranded in the Superdome, even though the rest of America had been watching it on the television news for the previous 24 hours.

Coming away from Katrina, FEMA was another federal agency that vowed "Never Again."

What this all means for us is that the American Bottom is squarely in the crosshairs of both agencies - and both agencies have now shifted the CYA game into a full court press. The Corps is going to require greater and more redundant systems. And FEMA will

give no quarter in its demands that all property owners buy insurance.

The problem is that there's a huge price to pay to play this CYA game... of course, they're not paying it...we are. When standard operating procedure becomes "If one is good, two is better," there's a price to that. As one of the board members said to the Corps colonel in the meeting, "If you design a solution that we can't afford to build, it's not a solution."

Sen. Dick Durbin is also playing the CYA game. Rather than support U.S. Rep. Jerry Costello's bill to give the area time to fix the levees, he's insisting on the insurance mandate because, as his spokesperson said, "It's one thing to delay the maps but you can't delay Mother Nature."

The irony here is that while they are all saying they are working to protect the people of the American Bottom from a natural disaster that may never come, they are certainly bringing upon the area a man-made disaster - a catastrophe not by act of God but by act of edict.

The old adage "You can never be too safe" just doesn't hold true here.

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