

Chamber speaker blames government for economy's state

By CHRIS DETTRO

THE STATE JOURNAL-REGISTER

Posted Jan 15, 2009 @ 10:38 PM

Government missteps helped spread the housing crisis to the rest of the economy, a nationally recognized author and economist said Thursday.

Robert Genetski also told an annual economic outlook breakfast of the Greater Springfield Chamber of Commerce that he is concerned neither President Bush nor President-elect Obama "seem to understand what has happened to the economy."

He told the gathering at the University of Illinois at Springfield that the national economy was doing reasonably well until Congress and the administration intervened just ahead of last year's election.

"So they took another \$170 billion out of already-tight credit markets and started writing people checks with it," Genetski said.

Genetski, author of "Taking the Voodoo Out of Economics" and most recently "A Nation of Millionaires," said as long as housing inventories are high, prices will trend downward.

"But I believe that at the current building rate, we'll work off the current inventory by the third quarter of the year," he said.

He also said he believed the Federal Reserve would inject more bank reserves and provide incentive for banks to lend, perhaps as early as the middle of the year.

Genetski, who has a doctorate in economics from New York University, called the current situation "the worst financial crisis since the Depression" but added that there is potential for economic recovery as early as the middle of next year.

“But it is unlikely to be a sustainable recovery unless we shift economic policies away from the idea that government is the best allocator of credit,” he said.

Genetski said the Federal Reserve realized in about 2005 that it had been producing too much money, and for three years in a row, reduced bank reserves. He said that had happened only once before — in the years leading up to the Great Depression.

“So, it overreacted and increased reserves eight times in a matter of months,” he said.

A University of Illinois at Springfield index released at the breakfast forecast a rebound in the local economy this spring. The forecast is based on components such as housing starts and home sales, income, employment, manufacturing and trade sales, and consumer spending.

A reading of 126 in September showed the rate of growth slowing. But any figure above 100 indicates the economy is on a long-term growth trend.

UIS economics professor Patty Byrnes said the local economy slowed in November and December but that indications are growth should begin to pick up by May. “This is also a similar pattern to other metropolitan areas of the state,” Byrnes said in the report.

Sergio “Satch” Pecori, leadership council co-chair of the Q5 Quantum Growth Partnership, said the partnership is at 36 percent of its goal of creating or retaining 4,500 jobs in Springfield and Sangamon County by 2012.

“Considering the climate we’re in, the successes we had are measurable,” he said.

Chris Dettro can be reached at 788-1510.