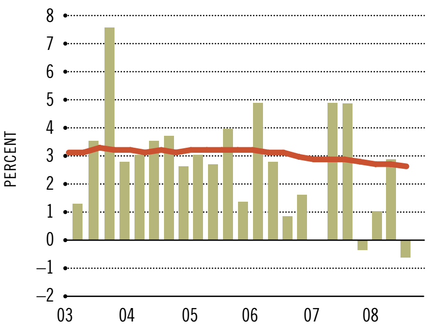
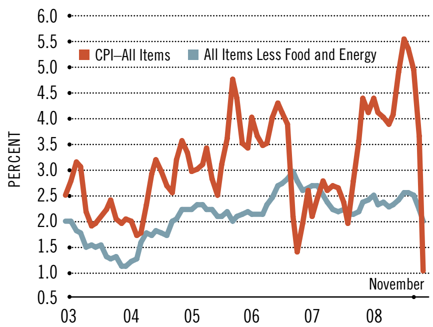
Eleven more charts are available on the web version of this issue. Among the topics they cover are agriculture, commercial banking, housing permits, income and jobs. Much of the data is specific to the Eighth District. To go directly to these charts, use this URL: www.stlouisfed.org/publications/re/2009/a/pdf/1-09-data.pdf.

REAL GDP GROWTH



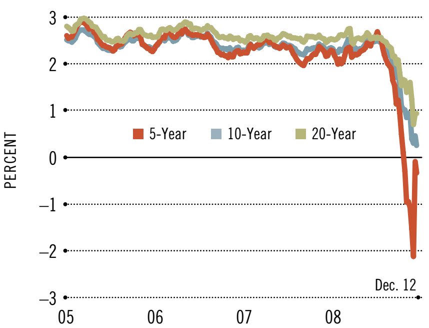
NOTE: Each bar is a one-quarter growth rate (annualized); the red line is the 10-year growth rate.

CONSUMER PRICE INDEX



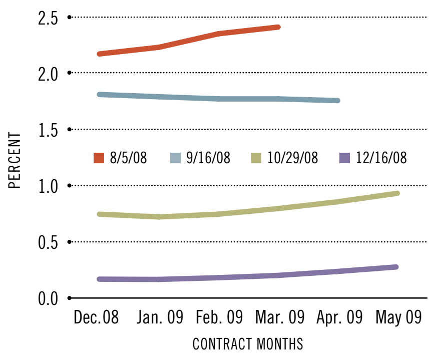
NOTE: Percent change from a year earlier.

INFLATION-INDEXED TREASURY YIELD SPREADS



NOTE: Weekly data.

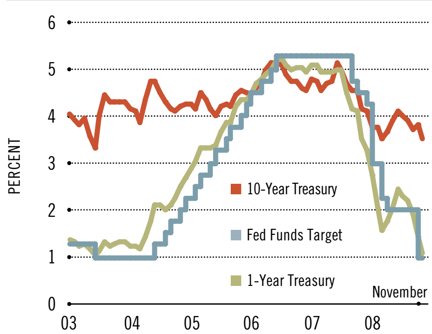
RATES ON FEDERAL FUNDS FUTURES ON SELECTED DATES



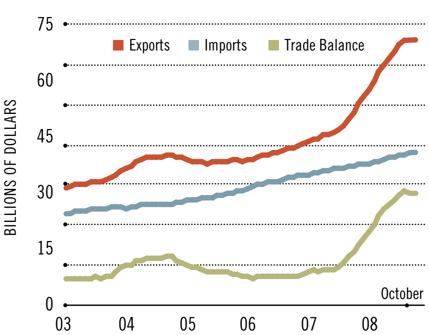
CIVILIAN UNEMPLOYMENT RATE

NOTE: Beginning in January 2003, household data reflect revised population controls used in the Current Population Survey.

INTEREST RATES

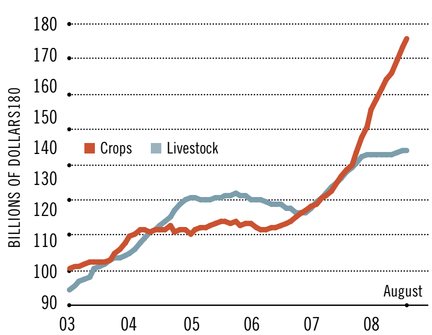


U.S. AGRICULTURAL TRADE



NOTE: Data are aggregated over the past 12 months.

FARMING CASH RECEIPTS



NOTE: Data are aggregated over the past 12 months.

LETTERS TO THE EDITOR

The following are excerpts from letters about October's article titled "U.S. Income Inequality: It's Not So Bad." To read the letters in their entirety, along with complete responses by the article's author, St. Louis Fed economist Thomas A. Garrett, go to www.stlouisfed.org/publications/re.

Dear Editor:

The article first provides some evidence that a wider measure would show less inequality, then argues that inequality is useful and necessary for a vibrant economy. The first ignores many other ways in which inequality is actually greater than our measures, and the second is wrong, and in addition there are many other ways in which inequality causes trouble.

If you include the fact that the lowest-income families are less likely to have health insurance, more likely to live in dangerous neighborhoods, work longer hours for their income and suffer greater insecurity, total inequality of well-being is still larger.

But there are other and serious bad effects of economic inequality: It leads to political corruption and to crimes of the poor, like prostitution and drug running. It violates a basic assumption behind the theoretical justification for free market capitalism, i.e., that market demand and prices are good guides for what to produce and how to produce it. Does anyone believe that our allocation of resources to infant health and to cosmetic surgery is justifiable?

Even worse, inequality leaves the masses without adequate income to provide full employment and the few affluent without real investment opportunities; so, the affluent and corporations bid up the prices of stocks and other existing assets.

James N. Morgan, emeritus professor of economics and research scientist, Institute for Social Research, University of Michigan; fellow of the American Statistical Association; member of the National Academy of Sciences

Dear Mr. Morgan:

Your letter confuses income inequality and poverty. The social ills that you describe, such as crime, lack of health insurance, drug abuse, etc., are a result of poverty and not income inequality. Those at the lowest end of the income distribution will still suffer negative consequences regardless of how rich others are. Consider the following example: Suppose an economy has 10 people each making $10,000. All 10 people are below the poverty level, and income inequality is zero. Now suppose one of these 10 people finds $1 million in a trash can. Income inequality now increases dramatically, but the well-being of the nine people still making $10,000 a year has not worsened. The point here is that the well-being of the nine people is a function of their poverty-level income and not the income of the now-wealthier individual.

Tom Garrett

Dear Editor:

You state that "Wealthy people are not wealthy because they have more money; it is because they have greater productivity." In what way do wealthy people have "greater productivity"—is this capital productivity you are talking about or productivity of their labor?

Your overall philosophy appears to be that "income inequality is the byproduct of a well-functioning capitalist economy"—presumably even a democratic capitalist economy. If this is the case, why would the grass roots of any country, whether ours or in emerging economies, favor such an economic system, especially now in the face of the meltdown of the "capitalist economy," which needed to be bailed out by the taxpayers of the country?

John J. Pimenta of Wheaton, Ill.

Dear Mr. Pimenta:

Here I am relating income to marginal productivity, that is, the value of one's labor. Income is positively correlated with the value of labor. Think of a major league baseball player versus a janitor. The former is highly skilled and generates large revenues (through ticket sales, etc.). Not everyone can be a major league ballplayer. On the other hand, janitorial work is low-skilled labor that most people could perform.

I would argue that any economic system should be evaluated on its long-run performance, rather than any short-run performance. Certainly, capitalism is not perfect, but it is that very system that has propelled this country to the greatest economic power on the planet. Even the poorest folks in the United States have a standard of living that is much higher than poor people in other countries. Furthermore, there are numerous factors that have played a role in the current crisis, many of which are not related to our specific economic system.

Tom Garrett

Dear Editor:

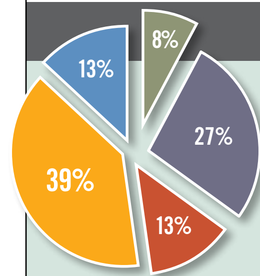
Tom Garrett has overturned countless studies and updates of income inequality assessments in one efficient stroke of careful analysis of the data and analytical flaws in prior approaches. He also highlights the role of official data sources in spreading the interpretive problems with misguided reporting routines.

John Shelnutt, an economist in Little Rock, Ark.

FED FLASH POLL RESULTS

Whenever a new issue of *The Regional Economist* is published, a new poll is posted on the Bank's home page, www.stlouisfed.org. The poll question is always pegged to an article in that quarter's issue. Here are the results of the poll that went with the October issue. The question stemmed from the article "U.S. Income Inequality: It's Not So Bad."

WHAT WOULD YOU DO ABOUT THE GROWING INCOME GAP IN THE UNITED STATES?



- Remain silent.
- Argue that income inequality has benefits and shows that our economy is working.
- Cut tax breaks, subsidies and the like for those on both sides of the gap to allow the natural state of income inequality to surface.
- Invest more in education and job training to lift the income of poor people at the expense of those with higher incomes.
- Pass legislation to bring us closer to equal distribution of income.

229 RESPONSES AS OF 12/3/2008

THIS ISSUE'S POLL QUESTION:

What would you do to trim the debt and deficit?

1. Raise taxes to pay for current government programs.
2. Cut government spending across the board.
3. Do nothing. Allow deficit spending to continue.
4. Reform Social Security and Medicare, focusing on revenue increases.
5. Reform Social Security and Medicare, focusing on benefit reductions.

To vote, got to www.stlouisfed.org. Anyone can vote, but please do so only once. (This is not a scientific poll.)

COMMUNITY DEVELOPMENT CONFERENCE IS SET

The second biennial *Exploring Innovation* conference sponsored by the Federal Reserve Bank of St. Louis will take place April 22-24 in St. Louis. The conference brings together people from all over the country who are involved in community development, including bankers, researchers, developers of affordable housing and representatives of nonprofit organizations and of government agencies.

The theme of the 2009 conference will be "Innovation in Changing Times," a reflection of the current financial crisis. This conference will focus on resiliency, sustainability and innovative programs that can improve an organization's performance so that it can still have a positive impact on its community, even in the face of tough economic conditions.

Registration begins this month. For more information, see www.exploringinnovation.org.

Working with the Fed to plan this event are CFED (Corporation for Enterprise Development), Enterprise Community Partners, NeighborWorks America, Opportunity Finance Network and Social Compact.

Exploring Innovation

www.exploringinnovation.org

ASK AN ECONOMIST

Subhayu Bandyopadhyay's research interests are international trade, development economics and public economics. The native of India has lived in the United States since 1987 and is now a U.S. citizen. He is an avid cricket fan, having played the baseball-like game in his youth. He likes to travel and meet people of different cultures.

Should we be concerned about the economic impact of immigration on native U.S. labor?

Immigration is the use of imported labor as a factor of production. While international trade in goods and services ships goods across international borders, immigration allows labor to be imported. In principle, international trade can perform the same function as immigration because nations that have cheap labor can make goods that are intensive in labor and export them to labor-scarce nations. This should help alleviate the labor scarcity problem for richer nations, while reducing the labor glut in the poorer ones, benefiting both. In practice, however, barriers to trade, as well as the fact that services are often not easily traded, may require nations to allow immigration.

While movement of labor, capital and goods across international borders is generally considered a good thing in the context of overall economic efficiency of a nation, such openness may hurt some groups within an economy. In particular, there is a lot of concern that immigration may hurt native U.S. labor. To the extent that the skill level of the immigrant is a close substitute for that of the native worker, this seems plausible. However, at least three points are worth noting in this context. First, unskilled immigrants may do jobs that unskilled natives may not want to do; so, natives may not compete with immigrants for the same type of jobs. Second, skilled immigrants may complement and enhance the productivity of the unskilled natives, much like machines enhance the productivity of labor. Finally, to the extent that the employers of the immigrants benefit, they are able to invest in their businesses to raise employment opportunities for all.

A recent paper by Gianmarco I.P. Ottaviano and Giovanni Peri focuses on these issues.[1] The authors found that immigration during the 1990-2006 period had a small negative effect (negative 0.7 percent) on wages of native workers with no high school degree. In the longer run, this effect was actually a positive 0.3 percent for the same group. Average wages also showed a similar pattern in the researchers' analysis.

We know from Depression-era history that greater protectionism in the face of an economic downturn is likely to only accentuate the problem of high unemployment. It is generally recognized that the Smoot-Hawley Tariff Act in 1930—along with retaliatory tariffs imposed by other countries—exacerbated the onset of the worldwide Great Depression.

Times of economic slowdown might increase pressures to "protect" jobs, but ill-conceived plans to limit employment opportunities for some does not necessarily provide opportunities to others. Rather, the law of unintended consequences can lead to outcomes that are detrimental to all.

[1] Ottaviano, Gianmarco I.P.; and Giovanni Peri. "Immigration and National Wages: Clarifying the Theory and the Empirics." National Bureau of Economic Research Working Paper No. 14188, July 2008. See www.nber.org/papers/w14188.

Submit your question in a letter to the editor. (See Page 2.) One question will be answered by the appropriate economist in each issue.

Globalization … of a Financial Crisis

Recent financial market turmoil did not affect just the United States, but spread to become a global crisis. In the April issue of *The Regional Economist*, read about the impact on other countries around the world and find out about some of the policy responses that they implemented.

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