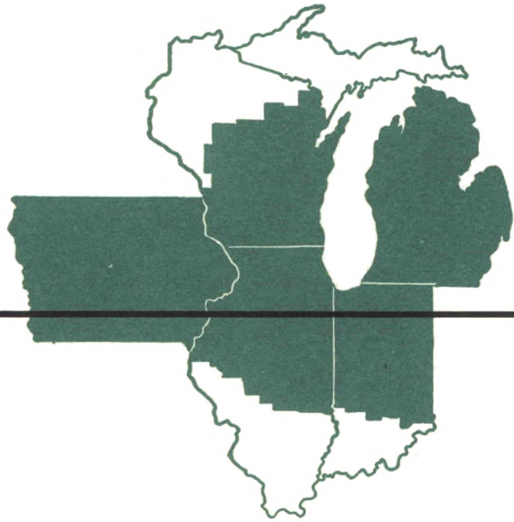
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1954 November

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THE Trend OF BUSINESS

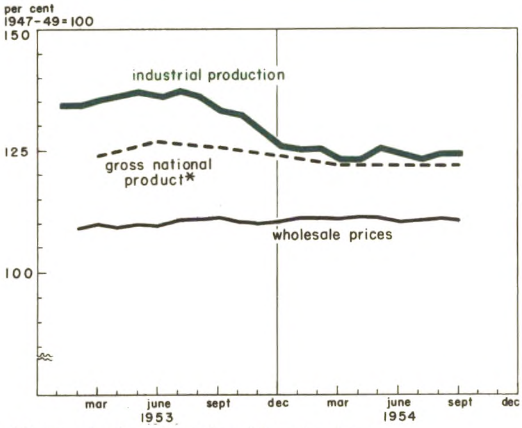
Developments in the automotive industry have constituted the dynamic element in the course of Midwest business in recent months. Aside from those centers which are dominated by the production of motor vehicles or parts, most cities in this area have experienced the same persistent stability which has characterized the national economy since last spring.

Beneath the outward calm of the aggregate statistics, individual components have recorded significant, if offsetting, changes. Moreover, underlying forces may be undergoing a change. It is now well accepted that two main causes were responsible for the lower level of activity in 1954—the drop in defense spending and the liquidation of business inventories. Budget figures indicate that the decline in Government outlays will continue but at a much slower rate, and the drive to reduce inventories may have halted in recent weeks.

These developments do not necessarily lead to the conclusion that an upward movement in business will be evident in the near future. They indicate, rather, that the consumer has returned to the center of the stage as the key figure in the short-term outlook.

Spendable income of consumers, despite employment cutbacks, has remained at or near last year's high, thanks mainly to tax cuts and increased unemployment and pension payments. Liquid savings on hand are larger than ever. The ability of manufacturers and merchants to coax these dollars to the retail counter will go far toward determining whether recent levels of sales and output are maintained or bettered.

Activity measures plot stable course through 1954



*Gross national product adjusted for price changes

Total business inventories declined by 650 million dollars in July and 260 million in August on a seasonally adjusted basis. This slower rate of liquidation coupled with other recent evidence suggests that the net drop may have ended, temporarily at least, in the months since August.

The aggregate decline in stocks from September of 1953 through August of this year was only about 5 per cent, while sales declined almost as much. Virtually all of the 4 billion dollar reduction, however, has taken place in durable goods, particularly the types which are dominant in the Midwest.

The rise in the steel rate from 63 per cent of capacity in July to 74 per cent in October indicated that some users had reached the bottom of their stockpiles. Another factor which is influencing inventory trends is the moderate step-up in military orders which has been under way for some months in contrast with the sharp cutbacks of last year.

In the automobile industry, manufacturers have been accumulating parts and supplies for the production of new models offsetting, in part at least, reductions in the number of finished cars in dealers' hands. Increased production of television sets, furniture and floor coverings in August and September indicated some restocking at both the manufacturing and retail levels. In some other fields such as farm machinery and textiles output has been below sales as excess inventories were worked off.

Inventories had been truly burdensome in only a few lines in the fall of 1953. Since then, more and more firms have worked off the gluts which did exist. The easier supply situation has been one reason for reducing stocks, but for many months virtually all goods have been available on short notice. Price cutting, one of the basic causes for inventory declines in the past, has not materialized in a general way. Of course, satisfaction with present levels of inventories will depend upon maintenance or improvement of recent levels of sales, especially to individual consumers.

Retail sales during the third quarter were slightly below 1953 despite a weakening in the late summer of last year. This year there was a slight drop, seasonally adjusted, from June through September. Lower sales of automotive dealers have offset some gains in other lines.

Department store sales in both the United States and the District were about equal to the level of the previous year in September and the first part of October although that period of 1953 was not especially favorable. So far this year Chicago and Milwaukee department store sales have held even with last year whereas Detroit and Indianapolis were off 4 to 5 per cent. In smaller centers results have been mixed, ranging from moderate gains in Cedar Rapids and Lansing to substantial declines in Gary, South Bend and Muskegon.

Savings of individuals have been building up in banks, savings and loan associations and other institutions at a rate unmatched since World War II. Liquid savings in major media rose 12 per cent faster in the second quarter than last year, and preliminary evidence indicates that the relative gain may have been even greater in the third quarter. Savings account reports from banks in a group of Midwest cities indicate that the urge and ability to save is widespread.

Nonfarm employment, nationally, rose by about 480,000 between August and September, but once again, the rise, although reassuring in the face of recent trends, was largely seasonal. Last year, despite an evident weakening of the labor market, employment increased 240,000 between these months. The opening

Classification of Midwest labor markets in September

1.5-3 per cent unemployed	3-6 per cent unemployed	6-12 per cent unemployed	over 12 per cent unemployed
Cedar Rapids	Aurora	Davenport-Rock Island-Moline	Michigan City-La Porte
Des Moines	Chicago	Joliet	Muskegon
Flint	Rockford	Peoria	
Madison	Indianapolis	Fort Wayne	
	Grand Rapids	South Bend	
	Kalamazoo	Terre Haute	
	Lansing	Battle Creek	
	Milwaukee	Detroit	
		Jackson	
		Kenosha	
		Racine	

SOURCE: Bureau of Employment Security

Automobile sales lag other retailing

	July-Sept. 1953	July-Sept. 1954	Per cent change
	(million dollars)		
Automotive stores	8,939	7,949	−11.1
Furniture & appliances.	2,250	2,190	− 2.7
Apparel	2,247	2,245	− 0.1
Food	10,253	10,489	+ 2.3
General merchandise ..	4,356	4,324	− 0.7
Other	14,598	15,155	+ 3.9
Total	42,643	42,352	− 0.7

of schools, the ending of vacations in manufacturing and additional hirings by trade firms are primarily responsible for this development.

Employment in September was off 4 per cent from last year in Milwaukee and Chicago, about the same as the national total, and about 5 per cent in Indianapolis. Detroit reported a considerably greater deficit, but the situation was improving rapidly in October as 1955 auto models went into production. Madison, Cedar Rapids and Des Moines have continued to maintain employment near peak levels. In other cities declines of 5 to 10 per cent were common.

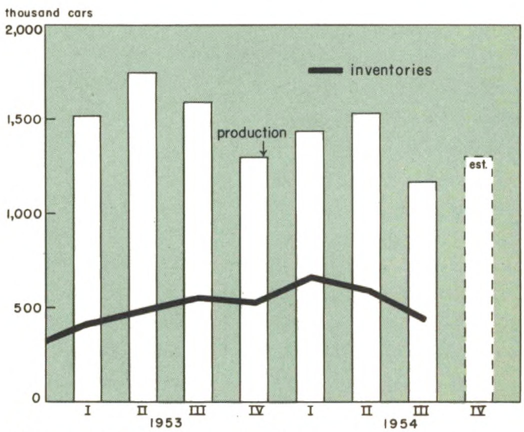
Employers' reports to state agencies in September indicate little over-all change in the hiring situation through November. Some further improvement in steel and, of course, automobiles is expected, and seasonal increases in trade and related lines are under way. However, some manufacturing lines anticipate additional layoffs, and seasonal declines in construction and industries which supply food processing and related lines are also taking place.

Industrial production usually shows a seasonal rise of about 9 per cent from July, the year's trough, to October, the peak month. Through September this seasonal pattern was being followed, as indicated by the fact that the adjusted index for the month stood at 124 per cent of the 1947-49 average—unchanged from August and one point above July. Increases in steel, chemicals, tires and lumber offset declines in automobiles, machinery and other metal products.

Automobile production in September and October was about 530,000—the lowest two-month total since the 1952 steel strike. As a result, unemployment in Michigan was estimated at almost 300,000. The jobless problem in that area is being moderated rapidly as 1955 models go into full-scale production in November and December. Industry executives have estimated that 1955 output will total close to 5.4 million passenger cars, about the same as 1954. Some of the largest selling makes will feature extensive changes which, it is hoped, will carry a strong consumer appeal.

Construction continues to boom along at a rate which belies even the more optimistic predictions made at the start of the year. There can be little question now that 1954 will set a record in construction volume by a comfortable margin despite declines in virtually every other segment of activity. Construction contract awards in the Midwest were 35 per cent above last year in September. Nationwide, housing starts are beginning to reflect the boost provided by newly liberalized FHA terms. They were 19 per cent above last year in August and continued at a comparable rate in September.

Cutback in auto output reduces stocks



SOURCE: Ward's Automotive Reports

Instalment credit in the doldrums

Throughout the postwar period, one of the most persistent stimulants to business activity has come from a sharply expanding level of consumer debt. During the past year, however, this support has been almost entirely lacking. At 21.3 billion dollars, instalment debt in August was only 100 million higher than a year earlier. This compares with a gain of nearly 4.5 billion dollars in the year ended August 1953. Moreover, after allowing for seasonal changes, indebtedness actually declined in six of the first eight months of the current year.

What has accounted for the lag in instalment credit? One important factor has been the moderately lower level of durable goods sales so far this year. Since credit typically is involved in the financing of such purchases, the shrinkage in sales volume has retarded the growth in debt. Over and above this "automatic" effect, however, consumers have made less extensive use of credit *relative* to the lower level of sales. Finally, the level of debt repayments has increased further since the turn of the year, reflecting the large volume of credit extended in 1953 and the latter part of 1952.

The abrupt leveling off in instalment debt has had a pronounced effect on consumer finances. Over the past 12 months, the net amount of purchasing power obtained by consumers through the use of such credit has been 4.4 billion dollars *smaller* than during the preceding year. This means that consumers have had less to spend from this source, while at the same time wage receipts have moved downward.

Although most retail lines have tended to suffer, the impact of reduced credit use has been concentrated in durable goods. Credit sales of most types of furniture and appliances have fallen short of last year's levels, and in the case of new and used cars, the decline in over-all dollar volume has been substantial.

What are the prospects for a renewed expansion in instalment debt in the months ahead? Funds for increased credit activity are in plentiful supply, and competition among lenders for the available consumer credit business is intensifying. Despite the downturn in employment and earnings, the experience of most lenders with delinquencies and repossessions has continued to be favorable. At least partly because of this, down payment and maturity requirements have eased moderately since last winter.

Consumer sets the pace

The key to the question of credit expansion, however, lies with the consumer. For the most part, the lower level of credit extensions during the past year did not result from inability to secure credit, but from consumer unwillingness to incur new obligations. This, in turn, probably reflected uncertainties regarding job and income prospects, the burden of monthly payments on debts already owed and, most important, a less intense demand for durable goods. Final payments on old instalment debts currently are being made in large volume, and many credit users are probably in a better position to incur new debts now than last winter. Nevertheless, most prospective borrowers will have to be enticed into using their increased credit potential. Unless the pull of new models of cars and new lines of furniture and appliances arouse enough interest to bring buyers out in larger numbers this fall, there is little reason to expect much more than a seasonal rise in instalment debt in the months ahead.

Credit extensions show slight upturn

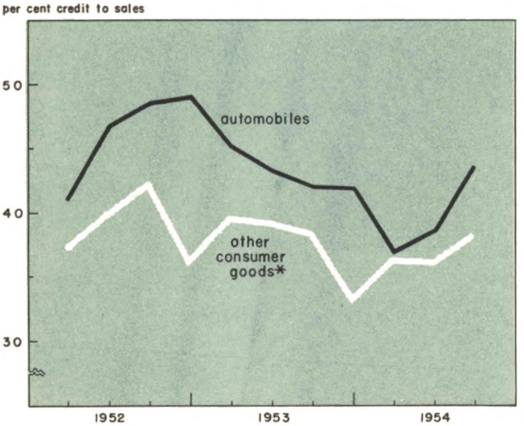
Following a gradual decline of more than a year's duration, new credit extensions did pick up moderately beginning last summer. Averaging nearly 2.4 billion dollars monthly in June, July and August, seasonally adjusted credit extensions were 6½ per cent larger than the average for the first five months of the year.

Even so, credit volume was still nearly 10 per cent below the peak rate reached in the winter of 1952-53.

Automobile credit has accounted for most of the increase in volume in recent months. Credit extensions for this purpose during the summer ran more than an eighth higher than in the earlier months of the year. Part of this increase was due to an upsurge in new car sales as promotions were pushed by both manufacturers and dealers in order to reduce heavy inventories of 1954 models. In addition, however, new credit volume as a proportion of total automobile dealers' sales has increased substantially from the low springtime rate (see chart). In fact, credit extensions in July and August accounted for a slightly higher percentage of sales than a year earlier.

The recovery in credit buying of cars partially reflects a tendency toward easier credit terms which has developed since early spring. Maturities on new car loans are still typically at 24 months, but many lenders are now writing some contracts for 30 months. Perhaps more importantly, lenders have become less cautious regarding used car credit since prices have stabilized following sharp breaks in 1953.

Credit extensions account for larger proportion of sales in recent months, following a sizable decline



*Includes sales of furniture, appliances, department stores and mail order houses.

Note: Last figure is for July and August only.

Credit terms for the purchase of other kinds of durable goods also appear to have eased since last winter. Television sets and major appliances are more commonly being offered at no down payment, and maximum maturities have generally tended to lengthen. The ratio of credit to total sales of the major types of outlets carrying such durable goods has increased somewhat in recent months, although the gain has been less pronounced than for automobile credit (see chart). There has been little improvement in the dollar volume of credit extensions for purchase of these other durable goods, however, and this type of instalment debt has continued a gradual decline through the summer. Such indebtedness is now 6 per cent, or 300 million dollars, below a year ago.

Personal cash loans, on the other hand, have continued to expand during the past year. Such loans totaled 4.5 billion dollars in August, 330 million more than a year earlier. Moreover, after seasonal adjustment, personal loans increased in all but two of the past 12 months. Although the proceeds of some of these loans doubtless are used for the purchase of durable goods, most are made for such purposes as consolidation of non-instalment debts, financing of vacations, payment of medical bills and meeting various types of emergencies. Many individual workers have taken cuts in pay during the past year—often unexpectedly—as a result of temporary layoffs or reduced hours. Under these circumstances the demand for emergency loans would have been expected to continue strong.

Effects of the recent pickup in credit extensions on the level of debt have been partially offset by a further rise in repayments this year. During the five months ended in August, repayment volume was 6 per cent larger than in the same period a year earlier, even though total indebtedness was little changed. This increase largely reflects the abrupt easing in credit terms when Regulation W ended in the spring of 1952 and the subsequent large volume of credit extensions. Virtually all credit contracts are now on the easier post-Regulation terms, however, and debt repayments should tend to level off. As a result, any further rise in credit extensions at this time probably would boost instalment debt totals.

Competition keen among lenders

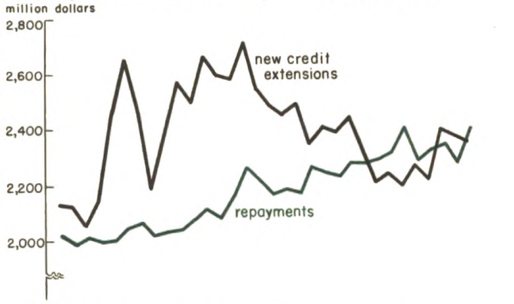
During the postwar period, many banks have entered the instalment lending field on a volume basis for the first time. Credit unions, as a group, have enjoyed a substantial growth in public acceptance, while other major lenders have greatly increased their resources through the acquisition of new capital and development of both long- and short-term sources of borrowed funds. During most of this time, both newcomers and established lenders have experienced a strong demand for instalment funds, despite the expansion in credit facilities. Frequently, in fact, the major problem of lenders has been one of restraining an unduly rapid growth in consumer loan portfolios, rather than attracting a sufficient volume of new business.

Along with the cessation of growth in consumer debt, however, have come important shifts in the relative importance of the major types of consumer lenders. In general, banks have lost some ground to the specialized lending institutions—especially the sales finance companies (see chart). Bank holdings of automobile credit have dropped 8 per cent in the past year, for example, while sales finance company holdings have grown 6 per cent. Similarly, personal cash loans at banks have increased only 5 per cent since August 1953, while such loans held by other institutions—primarily credit unions and small loan companies—have risen 9 per cent.

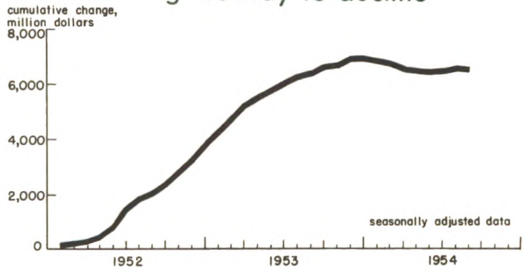
The role played by banks in financing instalment purchases of furniture, appliances and other consumer goods has also declined markedly in the past year. In earlier postwar years, there had been a pronounced trend away from store financing of instalment receivables, with banks getting most of the business. Since August 1953, however, bank loans for these purposes have dropped 14 per cent, while instalment debts held by retail outlets have increased slightly.

To some extent, the reduced activity of banks

Credit extensions fall off, repayments catch up. Result . . .



rapid instalment debt expansion gives way to decline



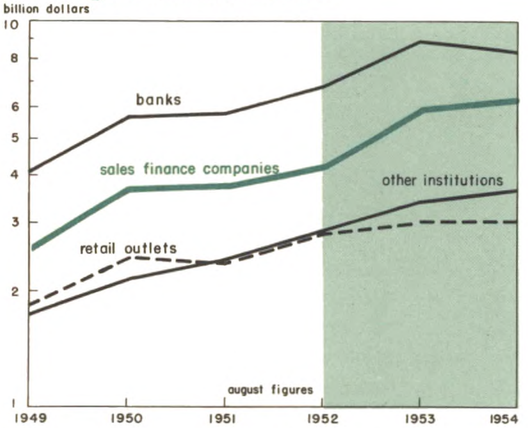
in the instalment lending field has been voluntary. Many bankers became increasingly uncomfortable about the rapidity with which their instalment portfolios were increasing during 1953, and some tightened up credit standards and terms in order to curb this growth. In addition, however, it seems clear that some of the decline has resulted from competitive developments. Partly because of long-standing relationships with dealers, other institutions have been more successful in maintaining their purchases of instalment paper. At the same time, an easier working capital position and greater flexibility in setting terms and credit standards has led retail firms to hold rather than sell a larger proportion of their instalment receivables.

Last fall and winter there was considerable apprehension among lenders that the decline in business activity then under way would result in sharply higher delinquency and repossession ratios on consumer loans. Bank reports to the American Bankers Association on the proportion of loans delinquent 30 days or more, however, suggest that the increase which took place did not assume serious proportions. Although delinquencies rose moderately in the winter, they subsequently have dropped back to last year's levels. Moreover, at no time did the delinquency ratios rival those experienced during the recession of 1948-49. The per cent changes, 1954 from 1953, as reported by banks were:

	First quarter	Second quarter	July-August
Purchased paper	+14%	+15%	+3%
Direct loans	+24	+19	+1
Appliance loans	+13	+ 5	+2
Personal loans	+ 4	+ 8	−2

The failure of delinquencies on instalment debts to rise sharply this year doubtless has stimulated reconsideration of instalment lending policies by many institutions. Banks generally hold ample supplies of funds for expansion of loan portfolios, and both short- and long-term borrowed funds are also readily available to most specialized consumer lenders. Thus it is apparent that the money to finance a further rise in instalment debt will be forthcoming, should consumers elect to increase their rate of credit buying.

Sales finance companies show sharpest gain in debt holdings since mid-1952



Upsurge in farm productivity

The persistent uptrend in supply of goods and services available to the average citizen for his consumption and enjoyment is generally ascribed to our "more efficient ways of doing things." And we confidently look forward to additional improvement in our capacity to turn out more per hour, per day, per man and to a further rise in living standards.

But while the benefits of more efficient production are widely acclaimed, we sometimes overlook and at other times resist the successive waves of adjustment that spread across the face of the economic pool once a change is initiated. This is because the "costs" and the "benefits" of innovations are seldom spread uniformly between individuals or areas.

The broad outline of the upsurge in farm production is well known. Since 1940, total output of agricultural commodities has been boosted 30 per cent, nearly as much as in the preceding three decades. And the current higher level of output requires 27 per cent fewer man-hours than did the 1940 production. Output per man-hour has increased nearly 80 per cent. But the rate of progress has been startlingly different for the various kinds of commodities (see table). And to the extent that production of individual commodities is localized, the effects are far from uniform for all areas.

The fact that labor productivity has gained much more rapidly for grains than for most other kinds of agricultural commodities does not necessarily indicate that profits of grain farmers have widened relative to those, for example, of meat animal producers. In a competitive situation, producers tend to increase output of their more profitable lines, and the larger supply in turn tends to bring prices in line with the lower production costs. Thus, the benefits of more efficient production are largely passed along to consumers, the amount of gain realized by a producer being determined largely by how quickly he adopted the lower-cost production techniques and how much time elapsed before output was increased enough to reduce prices.

Not all is net gain

Of course, not all of the progress in output per man-hour is net gain. To a large extent, farm labor is made more productive as it obtains the use of additional mechanical power and other specialized materials and services for use on the farm. In a truer sense, it is the increased use of capital—plus advances in technology embodied in that capital—adapted to the special requirements of agriculture, that permits the greater output per man-hour. Total production costs are not necessarily reduced by such changes, although in general capital is substituted for labor at the times and in the places where it yields a net gain in efficiency or convenience.

An indication of the growth in the use of capital on District farms is shown by the percentage increase in the use of two types of capital, from prewar to the present:

	Fertilizer and lime	Power and machinery
Eastern Wisconsin dairy farms	500%	71%
Western Wisconsin dairy farms	394	95
Corn Belt hog-dairy farms	572	88
Corn Belt hog-beef raising farms	650	87
Corn Belt hog-beef fattening farms	482	83
Corn Belt cash grain farms	532	88

One of the more obvious effects of farm mechanization and other adaptations of specialized capital to agriculture has been to increase the size of farms. Many farms still are too small to gain optimum use of investments in tractors and other capital items. Since 1940, the average acreage of typical Midwest family-operated farms has increased about 10 per cent (18 per cent for hog-beef raising farms). However, land is only one factor used to produce farm commodities. If the increase in quantity of machinery and other materials is included, the average size of farm business has increased about 35 per cent.

As agriculture makes further progress in boosting output and increasing efficiency, it will constantly be in the process of adjustment. The average size of farm is expected to increase further, the number of farm families and farm workers to decline. Rural merchants in most areas can look forward to larger markets for goods and services used in the production of agricultural commodities, but in some trade areas the smaller num-

Labor efficiency has increased rapidly for major crops, less rapidly for livestock production

Commodity group	Total production	Total man-hours used	Output per man-hour
	(per cent change, 1940-53)		
Total farm output	+30	−27	+ 78
Major Midwest commodities:			
Corn, and other feed grains	+19	−58	+182
Soybeans, and other oil crops	+80	−35	+177
Wheat, and other food grains	+43	−37	+128
Hay	+ 1	−48	+ 92
Poultry and eggs	+81	+13	+ 59
Dairy products	+15	−21	+ 47
Meat animals	+28	+12	+ 14
Other commodities:			
Cotton	+31	−27	+ 79
Sugar crops	− 1	−40	+ 65
Vegetables	+10	−19	+ 36
Fruits and nuts	+ 5	− 8	+ 15
Tobacco	+42	+24	+ 14

Note: Data are for the U. S.
SOURCE: Agricultural Research Service, USDA

ber of farm families may provide shrinking markets for consumer goods.

Individual communities may experience very different results. Innovations and the use of increased amounts of capital per worker will cut costs of producing some commodities relative to others, with resulting shifts in supply and price patterns. Land values too may show different trends. Finally, demand changes can be expected to initiate fully as many, and possibly even more important, adjustments as are generated from the production side.

In the absence of war, the adjustments which lie ahead probably will be less severe than those of recent years but, nevertheless, substantial for some commodities and areas. Agricultural progress can be expected to travel, always, with adjustment as its full-time companion.

The big city: are its days numbered?

Smaller cities and the suburbs are growing more rapidly, but despite all its headaches the huge metropolitan center has a lot of staying power.

The decline and coming fall of "Megapolis, USA" is the theme of numerous newspaper and magazine articles these days. All too noticeable is the slower growth, population-wise and in most other economic measures, at the core of the largest cities—particularly the older centers in the Midwest and Northeast. Their difficulties with slums, smog and blight; their congestion; their exposure to fission and fusion bomb attack; their obsolescent layout; their neighborhoods of private structures, overripe for salvage, all are well known.

But important questions remain to be answered. Do the big cities still offer long-range investment possibilities? Should retailers and manufacturers locate new facilities in them? Should governments spend millions in tax funds to refurbish or rebuild their public works? Will the citizens of the future settle and raise their children in them?

Actually, the oft cited "desertion" of the big cities by both businesses and residents conveys an exaggerated impression. Some of the relocation that is taking place is not evidence of a trend, but would have made sense at any time. Many businesses situated in the centers of big cities never derived any special advantages from their high-cost locations. So far as residents are concerned, not everyone who likes big city working conditions likes big city living conditions, but until recent years only a very few have been able to do anything about it.

Why the centrifugal force

Not all relocation can be dismissed on such grounds, and there is the solid fact of more rapid growth in smaller cities. Moreover, the big cities do have some distinctive problems. *The principal causes* of centrifugal tendencies are obvious ones:

1. far-reaching technological changes like the advent of the automobile, which permits large numbers of people to live considerable distances from their work;

2. the growth of the trucking industry which makes the development of manufacturing in smaller centers without first-rate rail connections more economic;

3. the broadened areas in which cheap and adequate supplies of electric power and water are available; and

4. the general expansion of industry to the point where many large firms find it efficient to expand further via numerous moderate-sized plants rather than by adding to an already huge main plant.

There would be no cause for alarm if such major changes in the shape of the economy and attempts by individuals and businesses to take advantage of them afforded the only stimulus to the outward movement. But there are additional powerful reasons for moving out.

The basic problems

The worst problems in nearly every one of the country's dozen or fifteen largest cities are:

1. an uneconomic—from an over-all social standpoint—use of large parts of the city's land area;

2. obsolescence and inadequacies in design of large portions of its physical plant—its public and private buildings, roads, transit facilities; and

3. congestion on such a scale that it pretty much offsets the inherent advantages of a central location.

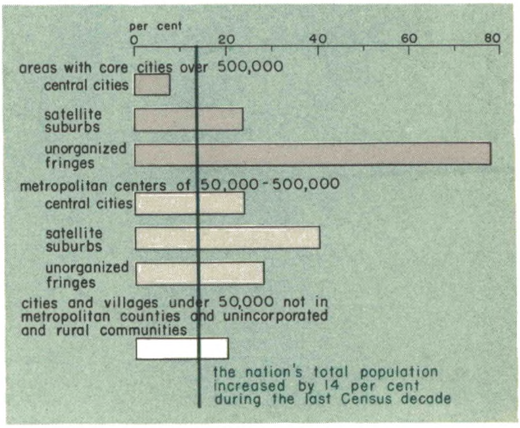
The first causes of these problems were *accidents of historical development* nearly everyplace. It is largely accidental, for example, that Chicago's worst slums have pre-empted what more sensibly should be one of its highest rent residential sections. Similarly, much of the congestion is due to technological changes that could not have been foreseen when cities were growing rapidly—for example, to unduly narrow streets and inefficient street patterns. As a matter of fact, for many centuries congestion was essential to the city's existence, for urban services could be provided at costs which were bearable only when a very dense population was crammed into a very small area.

In most cities, including many of the smaller ones, investment in housing has taken the form of new building in the suburbs and outlying areas of the big city itself rather than redeveloping the potentially valuable close-in sections now blighted.

Urban growth in Midwest metropolitan areas, for example, has been most conspicuous in unincorporated and suburban centers outside the central cities (see chart, page 13). Only in the Des Moines, Fort Wayne and Madison areas does the central city account for more than half the population increase in the 1940-50 decade. Of these only Madison shows a greater relative gain than its suburbs and surrounding unincorporated areas. About one half of the increase in the Chicago, Peoria and Lansing areas was in the suburbs outside the core cities. Most spectacular relative gains occurred in the unincorporated areas surrounding the central cities of the six largest centers—unincorporated places in the Chicago, Detroit and Milwaukee areas, for example, comprise from 6 to 13 per cent of the total area population but represent from 20 to 30 per cent of the population increase.

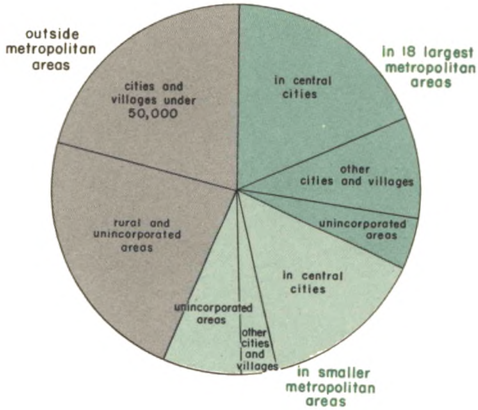
Residential blight has claimed many sections which might be better used as manufacturing districts, for transport terminals or for civic buildings, while blighted commercial and industrial districts undermine adjacent areas well suited to the residential purposes they now serve. This pattern is perpetuated when the new nonresidential building also occurs on the fringes of the metropolitan area. Naturally, the cities' physical plant in close-in sections con-

Unorganized fringes of metropolitan areas showed largest growth in 1940-50; cities over 500,000 grew least



Where U. S. lives

	Per cent of total
Cities over 500,000	18.3
Cities between 50,000 and 500,000	14.5
Metropolitan areas surrounding central cities	23.4
Cities and villages under 50,000	21.2
Rural and unincorporated areas	22.6



tinues to deteriorate and to become more antiquated, yielding a huge load of obsolescent facilities which are costly to replace or to maintain.

Moreover, the gravitation of people and activity from the metropolis' center to its fringes adds to the total volume of congestion. This is so because suburbanization adds to the total volume of movement—more people travel the longer distance to and from the center of the city. What is worse is that a considerable portion of the increased commuting is via private passenger automobiles, which are exceptionally efficient in generating congestion because they carry so few passengers in proportion to the street space they occupy both when moving and when parked.

The "wide open spaces"

In sharp contrast are conditions on the cities' fringes—the "frontiers" of urban development. Not unlike the western frontier a century ago, the urban frontier has powerful attractions for many individuals and many types of investment. Because the land on the fringe of the metropolitan area consists of farms or golf courses or is used for similar low investment, low population density purposes, land for housing developments, large factories or shopping centers is cheap—far cheaper than in built-up areas close-in to the center of things.

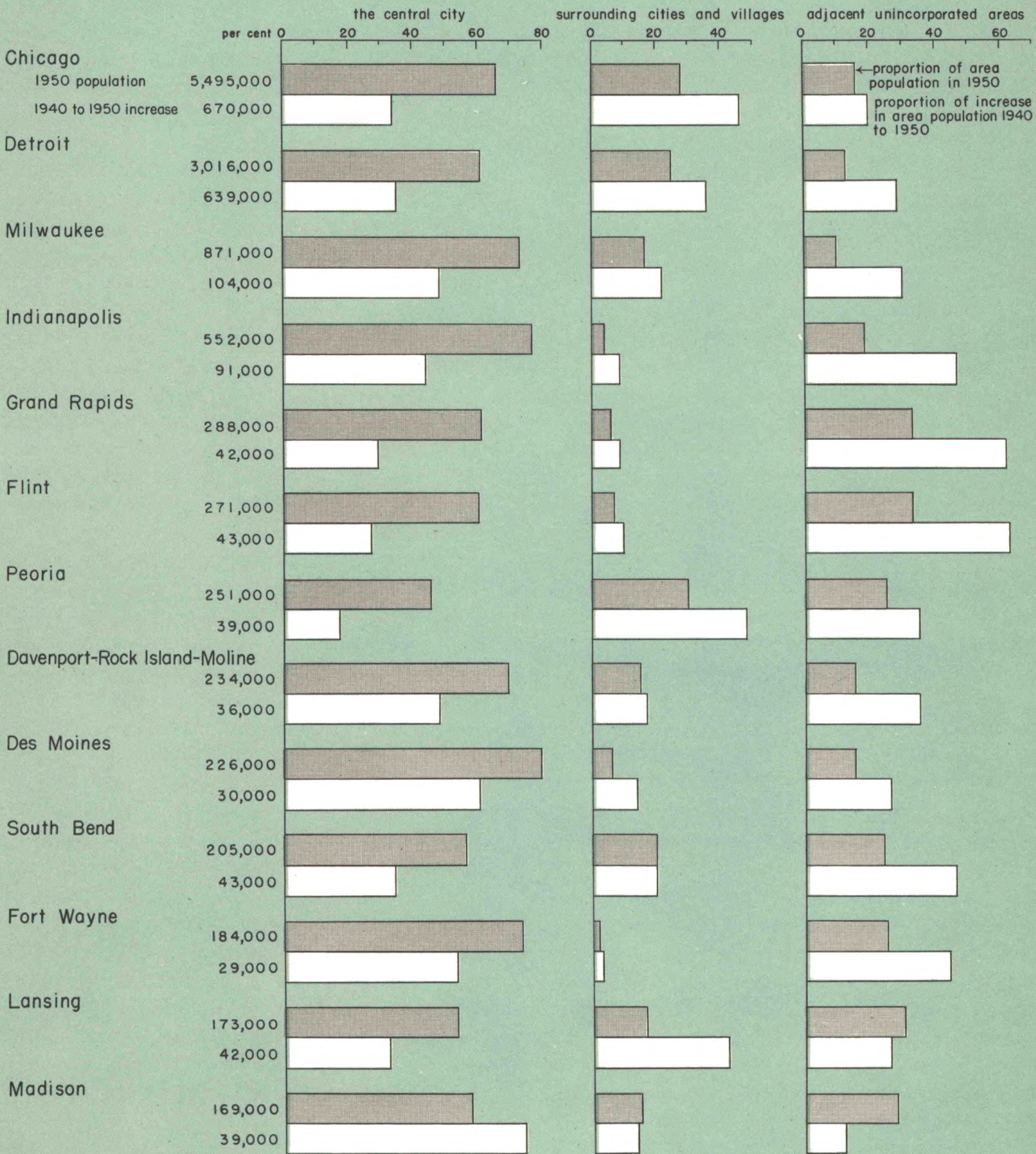
Again, because the land is undeveloped to begin with, there are no obstacles to designing new developments to take advantage of modern transportation and to minimize congestion. Adequate off-street parking space can be provided; through traffic can be kept out of the new residential sections; the wasteful grid patterns of streets can be avoided. The openness of the urban frontier—the absence of fixed investment too expensive to be moved or razed—permits its developers to fashion things to suit their present-day needs. Essentially, low land values plus the cost-reducing aspects of modern design are more than enough to offset the fact that businesses and residents have "sunk costs" in the cities' cores.

Low-cost services

Other things besides land are cheap in fringe areas. A subdivider or business developer who sets to work in sections outside any incorporated municipality can offer his customers a number of public services at little cost or they can in more sparsely populated areas be provided privately. Urban counties usually police unincorporated sections, so there is no village or city tax rate for police service. If the development is located on or alongside an existing state or county highway, as most of them are, it enjoys the benefits of fine road access without having to pay property taxes or special assessments to pave new roads. Sometimes connections with city utilities can be had at bargain rates, by fiat of state legislatures. If ground water supplies and electricity are available, a safe and reliable water supply can be had from private or neighborhood wells. Where soil conditions are not too adverse, private sewage disposal is practicable.

"Central cities" lag in population growth—

Only 20 to 50 per cent of the growth in leading metropolitan areas in the 1940-50 decade has been in the "central cities" even though these "core areas" accounted for 50 to 80 per cent of the metropolitan totals. Satellite cities, villages and unincorporated areas meanwhile have doubled or tripled their shares.



Of course, the frontier always has disadvantages in the sphere of public services. Some counties, particularly in the Midwest, are quite sparing in their provision of city-type services, like full-scale police and public health services, to unincorporated areas. Often adequate public services are not available at all in the absence of incorporation. And new residential communities have real headaches in providing school facilities; unlike city residents, overcrowding existing schools as a temporary expedient is of little benefit, since they may have only very small or very distant schools to begin with. But this is a price of pioneering which many homeowners and quite a few businesses are clearly willing to pay.

The centripetal force

The wasteful land use patterns, the obsolescence and the congestion, of course, encourage further migration and complicate things even more for city governments, city residents and city businesses. It's another familiar vicious circle, but it's unlikely to bring to an end the big city as an economic institution.

The big city has some natural advantages. One of the truly noteworthy features of our economy is that it responds to changing world, national and local markets and it exploits improved techniques. New products and new ways of producing old ones are always being developed to meet with favorable response in the market, while the demand for others declines.

A skilled labor force large enough and adaptable enough to turn out the new products quickly is a necessary requisite of such an economy. And the output of all sorts of specialized suppliers is needed, as well as a variety of technical services. All these requirements are much more readily met in the huge metropolitan center than anywhere else, precisely because it is so big and so complicated.

A large and adaptable skilled labor supply exists in big cities because the constant rise and fall of firms makes a variety of alternative employment opportunities characteristic of the major centers. Contrast the textile town which decays along with its one industry with, say, Chicago's riding out of earlier slumps in television sales or farm equipment with no perceptible effect on total employment or income. Naturally, Chicago has skilled and adaptable labor and, just as naturally, new enterprises constantly arise in the city.

To any enterprise, new or old, there are great advantages in having ready access to the products and services of highly specialized firms and individuals, and inevitably the major center has more of these than the smaller city. And though a firm may be able to buy the products of specialized suppliers who are located some distance away at a cost in money and time, only a big city location offers access to flexible and complete financial services, close contact with advertising media and agencies and everyday touch with the thinking of businessmen in similar fields, which can be a very great aid in business planning. As a matter of fact, for some industries—like finance—these close contacts are so important that not only a metropolitan area location, but a downtown location is essential.

To be sure, all the various requirements for a dynamic economy can be located somewhere or other in the country, but only in a metropolitan area are they concentrated enough geographically at little or no cost of transportation. Moreover, the skilled labor supply which perhaps is the critical requirement lacks mobility. In fact, commuting distances to and from work more or less define the geographic boundaries of the labor market and in effect also of the metropolitan area.

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Because it is a huge market for all sorts of products and services, the big city offers an advantage which to many firms offsets all its disadvantages combined. A location close to a big market is essential for many lines of business. Service establishments, whether business service or personal service, by definition locate in their market cities. For other businesses, transportation charges for finished goods are so high relative to those for raw materials or semi-finished goods that it pays to locate near the market rather than near the raw materials.

Its desirability as a place to live is also affected by its specialization. Because the big city *is* big, it can support varied recreational and educational facilities and attractions. And its diversity is physically within the reach of many, so much so that many prefer to live there even aside from the employment it offers.

And even for many of the economic activities which might be carried on just as well in small as in large cities, large-scale relocation and migration would require a tremendous volume of investment to replace facilities of all types which already exist in the big cities—industrial, commercial, office, public and residential buildings; railroad track, yards and terminals; roads and airports and many others. The big city's physical plant may be old and inadequate, but the economic capacity or financial instruments to rebuild it may well be lacking. Moreover, some of this inadequate plant has a good deal of useful life remaining and can be made to work reasonably well with some modernization.

Organized community effort is another factor which can help the big city to persist and grow. Expensive and difficult though they may be, there are reforms in the works which will enable many cities to make a start toward breaking out of the vicious circle of obsolescence and decay. The urban redevelopment programs now under way with substantial Federal Government aid generally alter existing land-use patterns: in Chicago, for example, slums in some potentially desirable neighborhoods are being replaced in some cases by more suitable residential developments, in others by more suitable industrial developments. Nearly every large city is investing tremendous amounts in streets, expressways and garages and, to a lesser extent, transit facilities to reduce congestion.

What all this amounts to is that any well-developed institution persists to a great extent because of its own momentum.

Taxes, mismanagement, costs

Some difficulties alleged to be the unique property of big cities are conspicuously absent from this discussion.

One is the frequent accusation that big city government is always inefficient or corrupt, or both. This is sometimes but by no means necessarily so. As a matter of fact, the biggest cities were both less efficiently and less honestly governed some years ago, when they were considerably smaller than they are now. Also, small cities are no less prone to mismanagement in relationship to the difficulty of the problem than the big ones.

As to costs, it is true that big city government is more expensive. Local government is an increasing cost business, because it does more jobs as it gets bigger. This is because urbanization makes it impossible for people to take care of some of their needs individually—for example, to dispose of sewage and wastes on their own properties—and the larger a city is, the more complicated become the facilities required for many of these functions. The complexity and expense grow faster than the population.

Nevertheless, the total costs of providing for these needs are not invariably greater to the average citizen, first of all because public costs in part replace private costs. Second, many local government facilities are paid for by the users of those facilities in proportion to their use rather than by the taxpayers in general—roads by motorists, water supply and sewage disposal by water users, transit systems by riders, airports by aircraft users. As a result, property tax rates, which support such community functions as schools and police and fire protection, are often as low in big cities as in smaller cities and frequently lower than in their suburbs.

Cattle on feed

Major Midwest cattle-feeding areas are maintaining operations this fall near the high level of other recent years. Iowa and Illinois bankers report that they expect to have only a moderately smaller demand than last fall for loans to finance feeder cattle.

Cattle on grain feed October 1 showed a gain of 2 per cent in Illinois and a decline of 8 per cent in Iowa from a year ago. However, the number was about the same as in 1952. Furthermore, the number placed on feed through the late fall and winter probably will remain at a high level. In-shipments of feeder cattle into major Corn Belt areas in July-September were about one-fifth larger than in the year-ago period, and many of these had not yet been placed on grain feed.

Feeder cattle have been priced considerably higher than last fall. The average cost of feeder steers at Chicago in the week ended October 21 was $20.50 per hundredweight, as compared with $17.37 in the corresponding year-ago week. Many Midwest farmers are reluctant to pay the higher prices, and some are delaying their purchases in the hope of buying cheaper around year-end. Nevertheless, the total volume of purchases has been at a high level, and the number of cattle fed in major District centers is expected to about equal the year-ago figure.

In part, this reflects the excellent corn crop through the northern Corn Belt, as well as the large amount of corn produced outside of acreage allotments this year and therefore not eligible for Government loan. Probably more important, however, is the good profit margin realized on cattle fed in the past year.

Even though farmers have been laying in a large number of feeders, most appraisals of the cattle-feeding situation this fall carry a rather bold note of uneasiness. In addition to the higher cost of feeder cattle, feed prices probably will average higher than last year. The consumer demand for meat gives little indication of changing appreciably. Also, at least in the first half of 1955, the supply of pork will be well above year-earlier amounts. Large supplies of poultry meat will be available this fall and winter but may be curtailed somewhat next year. Slaughter steers at Chicago averaged $25.61 a hundred pounds in a recent week, about half a dollar above a year ago. Unless slaughter cattle prices rise in the months ahead, profits from cattle feeding this year will be smaller than in the past season and possibly below average.

District cattle-feeding centers in northern Illinois, western Iowa