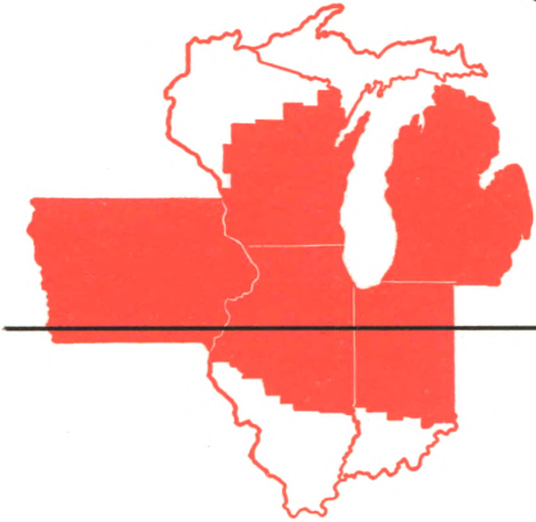
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1955 May

Contents

THE Trend OF BUSINESS

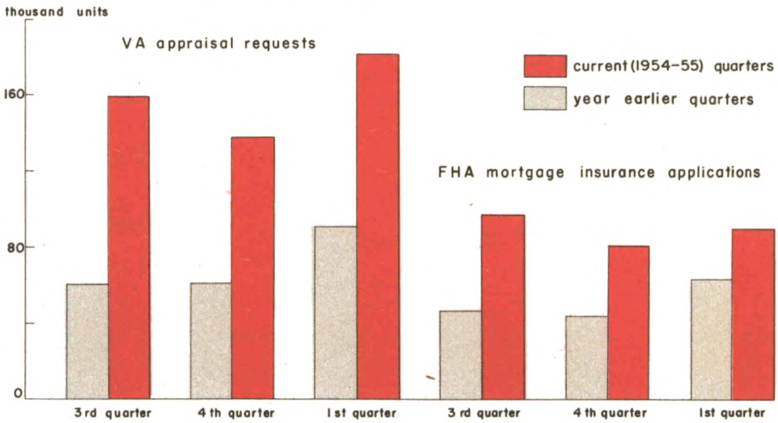
The vigorous uptrend which began last fall has carried general activity to a level which equals or surpasses the previous record high reached two years ago. Two characteristics highlight the movement; first, the speed of recovery and, second, its steadily widening base. Spurred by marked pickups last fall in auto production, steel output and construction, virtually all sectors have now participated to some extent in the improvement.

Total output of goods and services reached an annual rate of about 369 billion dollars in the first quarter, 14 billion more than at last year's third-quarter low. The six-month gain, amounting to 4.2 per cent, compares favorably with most other postwar advances in activity, if allowance is made for price increases in the earlier periods. This picture is the more encouraging in that the upward movement this time has been based not upon fears of inflation or shortages but rather upon a willingness of consumers to buy homes, cars and other merchandise in a volume which exceeds even the more optimistic projections of a few months ago.

In March, total retail sales again topped year-ago levels by about 8 per cent—a substantial rise compared with increases experienced during past periods of stable prices. Automobiles, of course, led the advance, but all major categories showed gains, and in the case of furniture and appliance stores a sharp year-to-year improvement was chalked up. In the Midwest, consumer spending, as indicated by the volume of checks drawn against demand deposits, is following a path similar to that of the nation. Virtually all centers reported a substantial rise. The District total was up 8 per cent in March.

Through February the business rise owed little or nothing to inventory building, although a slight accumulation was reported by trade firms in that month. Many concerns doubtless have attempted to increase stocks on hand by stepping up orders but have been prevented from doing so by the speed with which goods have moved. Manufacturers' new orders, led by those of durable goods producers, were running 15-20 per cent above 1954 early this year, and backlogs have begun to edge upward.

Proposed housing starts under VA and FHA programs continue well above year ago



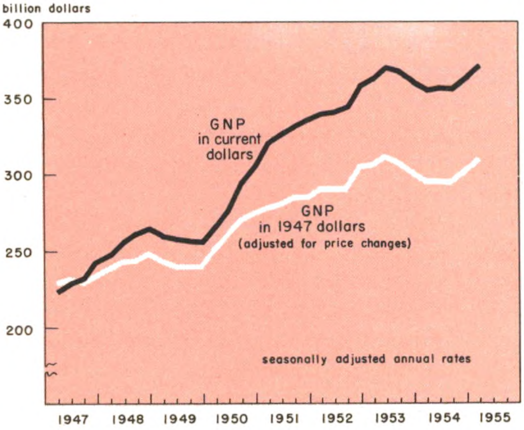
Passenger car output and sales continue to spark the upsurge. Through the first quarter assemblies totaled 2,130,000 — a full 50 per cent better than last year. Preliminary estimates by Ward's Automotive Reports, moreover, indicate that retail deliveries also set a new record of almost 1.8 million cars or 40 per cent more than in the 1954 period. March sales alone accounted for a resounding 700,000 units, a figure approached only in the post-Korea month of August 1950. Inventories rose gradually during the first quarter to a near-record 640,000 on April 1. Even these stocks look modest in relation to current sales, however, amounting to less than one month's supply.

This spectacular sales and output performance has caused production goals set by manufacturers at the turn of the year, fairly accurate in the past, to be scrapped. Industry spokesmen now see a possible output of 7 million cars this year. Even this record rate, however, would indicate a second-half decline of almost 40 per cent if second-quarter schedules are realized.

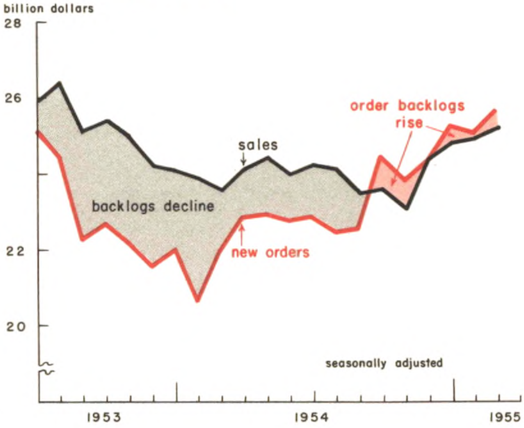
The capital goods turnabout, heralded by the recent Government survey of business spending plans, has been underlined by other recent reports. Machine tool orders after some ups and downs last year now seem to have assumed a definite, if moderate, uptrend. General industrial machinery orders began to show substantial year-to-year gains last December, and this movement continued into the new year. Even the railroad equipment industry has begun to increase its output slightly as a result of new business stimulated by improved carloadings and earnings prospects. Production of new motor truck models brought March assemblies to 110,000, the best level in almost two years.

Construction activity continues as one of the strongest sectors in the economy. Contract awards and related data, moreover, point to continued record use of man power, materials and other resources in this area well into the summer. F. W. Dodge awards for the Midwest in the first quarter surpassed last year's volume by almost one-fourth, despite a decline for public works and utilities. Housing continues to play the major role in this rise, and there is no evidence that the 1.4 million yearly rate of starts indicated for January and February will be moderated in the near future. Applications for FHA insurance commitments on new home construction are well in excess of last year, and VA appraisal requests have continued to run double the rate for early 1954. Housing

Recent upsurge brings output of goods and services to the 1953 peak rate



Order backlogs begin slow build-up after long decline



permits issued in the Chicago area during March exceeded the 1954 month by 55 per cent. In part, this reflected a flurry of new projects for luxury lake front apartments, but permits for single-family homes were also up 30 per cent.

Agriculture is one of the few major sectors which is not participating in the current recovery. Farm income appears to be headed for another decline, of perhaps 5 per cent, in 1955. This is partly a result of further acreage reductions and lowered support prices for basic crops such as cotton and wheat, as attempts are made to bring output and consumption more nearly in balance. In addition, support prices have been cut for "nonbasic" crops such as soybeans and grain sorghums which may be planted on diverted acreage. Livestock prices also may move lower as hog production is expanded further this year.

Farmers appear to have confidence that the prospective decline in their income will be small. Purchases of goods have been well maintained, and active demand for land has brought a bidding up of prices in the Midwest. Finally, manufacturers' sales of farm equipment have been outrunning last year, in part, as a result of the stocking of dealers with new models.

Cattle cycle whipped?

Ever since the buffalo herds of the Great Plains were replaced by "Texas longhorns," the underlying growth in the nation's cattle industry has been deeply submerged in a series of wavelike expansions and contractions. A chart of the number of cattle on farms, for example, shows a clear-cut cycle, and it is accompanied by corresponding, although less clearly defined, fluctuations in prices, number slaughtered and output of beef.

Researchers have attempted for years to dissect cattle cycles and to lay bare their inner workings. To a considerable extent their efforts have been successful. A series of interrelated developments which in total tend to unfold into a characteristic cyclical pattern have been uncovered.

The cattle cycle rests largely on two legs: (1) farmers' attempts to adjust production in response to price changes and (2) the biological fact that it takes several years for a calf to grow to maturity and reproduce. Cycles are influenced, nevertheless, by a number of additional factors. In years past, changes in demand, feed supply and output of other meats have contributed to the wavelike fluctuations of the cattle business. Due in part, no doubt, to the varying effects of these "outside forces," individual cycles differ and the "typical" pattern is of limited usefulness for purposes of forecasting future developments.

A nonconformist?

The upturn of cattle numbers beginning in 1949 was greeted as simply another period of inventory accumulation. The expansion in numbers has now lasted six years, which is about the average of previous cycles, and the increase has carried numbers up 24 per cent as opposed to an average of 28 per cent. During the past two years the increases have been very small, suggesting that the crest of the current wave has been reached.

The usual changes in make-up of the cattle herd and cattle slaughtered have taken place. In the early stages of the upswing fewer calves were slaughtered and their relative importance in the inventory on farms increased. As inventory numbers rose, cows and heifers accounted for a higher portion of the inventory and steers accounted for a growing proportion of total cattle slaughtered.

Thus, the present cycle could easily continue in the familiar pattern of previous cycles. With the onset of the contraction phase of the cycle, the slaughter of cows, heifers and calves would increase further while their proportion of the inventory on farms and ranches would decline. In addition, there is pressure to trim inventories from outside forces such as large supplies of competing meats, chiefly pork, and the incentives to divert grazing land to sheep as a result of high price supports for wool. If a typical pattern were to be followed, a liquidation phase would set in this year or next and total slaughter would show further increases in 1955 and 1956.

Perched atop the crest of another wave in cattle numbers and looking back over the successive waves which have flowed with considerable regularity since 1885, there would seem to be no other direction to go except down. However, there are reasons to doubt that cattle numbers will plot the typical depression phase of past cycles this time. Despite the build-up in numbers and the sharp slump in prices in recent years, cattle numbers may hold close to the present level for a few years. Then, if conditions surrounding the cattle industry have not shown further deterioration, cattle numbers could rise further as the larger population and higher real incomes expand the domestic market for beef.

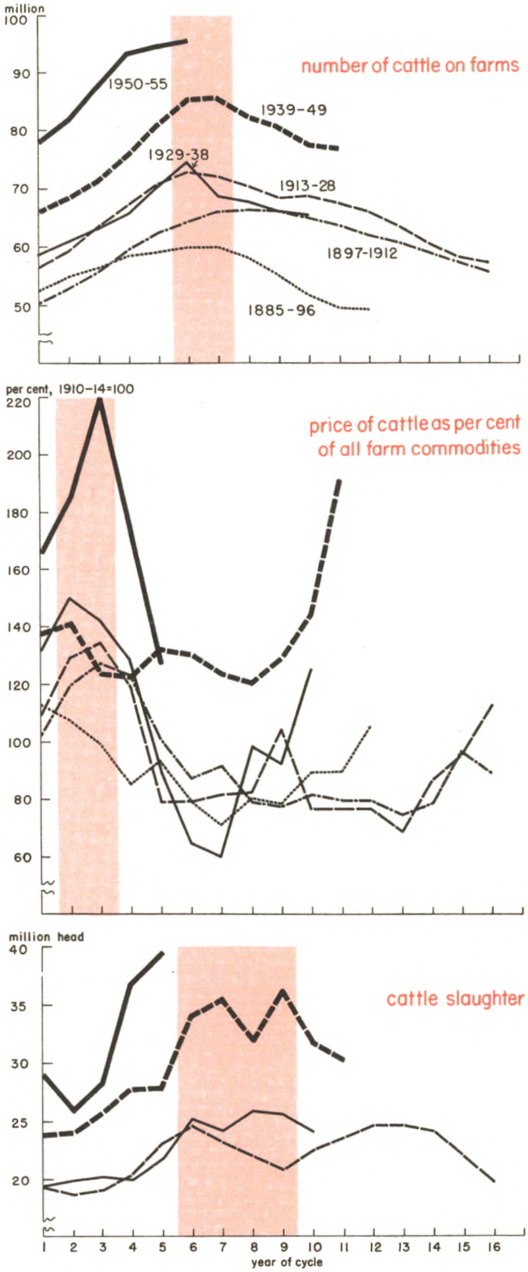
Currently, the USDA's stable of experts, probably unequaled anywhere else in the world, suggests that the 1955 outlook is for another year of stability in the cattle industry —"production and prices will likely continue at roughly the 1954 levels." However, a number of factors indicate that "stability, at recent levels" may characterize the cattle industry well beyond the confines of 1955.

Plenty of feed

The feed supply appears to have been a limiting factor at the peaks of previous cycles in cattle numbers. Certainly drouth in 1934 was the major factor in the sharp liquidation and high slaughter rate of that year. While the sup-

Interrelationships in the cattle cycle

High purchasing power of cattle encourages inventory build-up. As slaughter rises, prices drop, discouraging accumulation. As liquidation begins, slaughter reaches a peak; prices, their lowpoint.



ply of grass and hay probably exerts a greater influence on cattle numbers than does the supply of feed grains, the latter is important, especially in the Corn Belt's demand for feeder cattle.

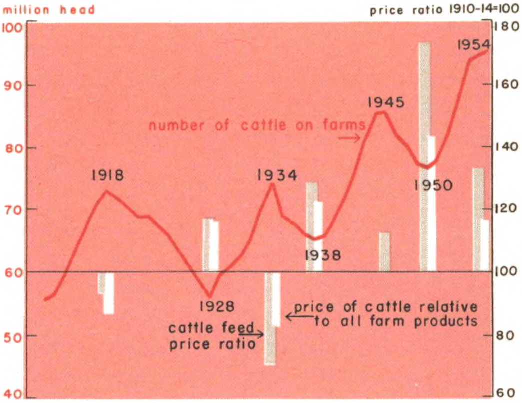
Stocks of feed grains have continued to mount as production has outstripped utilization in recent years. The carry-over of feed grains from previous years into the 1955 crop year is expected to total a record 34 million tons, 8 per cent larger than in 1954. Farmers' planting intentions as of early March indicate that feed grain production is likely to be at a record level this year. Thus, mounting grain supplies and lower price supports in the year ahead will permit and encourage a further expansion of livestock numbers.

Drouth has been severe in several grazing areas in recent years, and while this caused a reduction in cattle herds in those areas, it did not bring about an over-all reduction. Cattle numbers continued to climb during 1954, particularly in the Northern Plains where drouth was not a limiting factor.

With anything like normal weather, it seems that the carrying capacity of grazing areas is adequate for the present herd and that it may even accommodate a further increase in numbers. A peak in roughage-consuming animal units was reached in 1943. The current number is about 5 per cent below that peak. Declining numbers of horses, mules and sheep have more than offset the increase in cattle in the past six years. In fact, it would seem that considerably more leeway exists than this comparison implies as great strides have been made in the development and management of pastures.

Another factor in the current picture tending to permit a further expansion in cattle numbers is the direction in which farm policy has moved in recent years. If the flexible features of the current price support program and the "modernized" parity concept are allowed to go into effect for several years, grains and other feed crops may become relatively cheaper in relation to livestock. As a result, livestock numbers would probably be increased as these low value products were converted into the more profitable animal products. Feed supplies have already been augmented as acres diverted from wheat and cotton are planted to feed grains and pasture.

1954 price ratios nearly match those of 1928 and 1938 which ushered in periods of inventory accumulation



Furthermore, the cattle-feed ratio has remained favorable compared with previous periods when inventories were at a peak, and the large stock of grains now on hand indicates that feed ratios probably will worsen only if beef cattle prices decline substantially.

Prices and price ratios

Producers respond also to profit opportunities in other products. Despite the 1952-53 decline in beef cattle prices, cattle remain high relative to many other commodities. During previous peaks in cattle numbers, the relative purchasing power of beef dropped as much as 20 per cent below that of other farm products. Naturally there was a strong incentive to curtail beef output and shift into other enterprises wherever such adjustments could be made. But after the sharp cattle price decline of 1952-53, the purchasing power of cattle still remained high relative to other farm products, and in 1954 the margin widened.

Relatively high returns from beef and low returns from hogs might cause some farmers to raise fewer hogs and more cattle, while farmers in other areas may shift from dairy to beef via the simple process of letting the calves do the milking chore for them.

The average value of all cattle dropped almost 30 per cent in the year ending in January 1953. Since that sharp drop, we have enjoyed two years of fairly stable cattle prices at the reduced level. With continued high levels of demand and employment in prospect, there is widespread optimism that prices will hold near current levels.

The sudden one-year drop in cattle prices is in contrast to a more gradual decline which usually marked the beginning of the downward phase of previous price cycles. Such a gradual slide, averaging eight years in duration, caused widespread pessimism to pervade the industry. Only severe drouth or a weakening of the demand for beef would be likely to usher in a persistent, gradual downtrend in beef prices now and cause farmers to initiate a persistent reduction of herds.

Financial position firm

Credit, too, appears to have augmented the cattle cycle. When prices are high or rising and cattlemen are optimistic, large amounts of credit are used to finance the expansion of cattle herds. Under the pressure of falling prices and low profit margins, however, debts become burdensome. During the liquidation periods which followed the 1918 and 1934 peaks, for example, cattlemen were under increasing financial stress as they attempted to reduce debts built up while expanding their herds. No doubt this caused those cattlemen hard pressed to meet debt repayment schedules to make even sharper reductions in their herds, thereby reinforcing the price decline.

Currently, agriculture remains in a strong financial position despite substantial declines in prices and total farm income since 1952. Farm loans outstanding in the western cattle-grazing areas have increased but are lower relative to the value of cattle inventories than during most previous periods of expansion in cattle numbers. Farm mortgage interest payments are below the high levels of the 1920's and 1930's and a smaller portion of farm income is required to service current debts than formerly. Furthermore, deposits of country banks have held at a high level, actually increasing in most regions. Only in the Great Plains was there a small decline in 1954. Thus, it seems that pressure from farm debts would not accentuate any inventory liquidation that might get under way at this time.

Cattle population shifts

Geographic shifts in cattle numbers may contribute also to stability or further expansion in the industry. The South now contains 20 per cent of all beef cows in the U. S. as opposed to 16 per cent in 1949. In the past, cattle numbers in the South have not shown such pronounced fluctuations as in the West. In part, this has been attributed to relatively stable feed and roughage supplies. Also, the development of improved pastures in the area has greatly expanded its capacity to produce cattle, and a substantial further increase in its grazing capacity is possible. To the extent that these conditions hold, the greater importance of the South in the cattle industry will provide an additional element of stability.

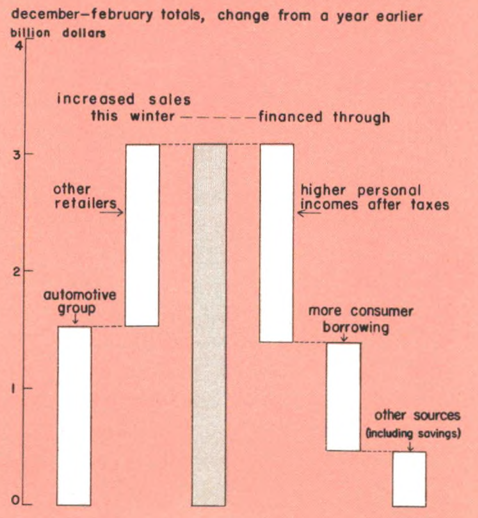
Stability in the cattle industry is contingent also on the maintenance of high levels of demand. This appears to be especially important at this time when the industry is geared up to turn out a near-record per capita supply of beef and the output of pork and poultry is increasing.

Interlude of stability

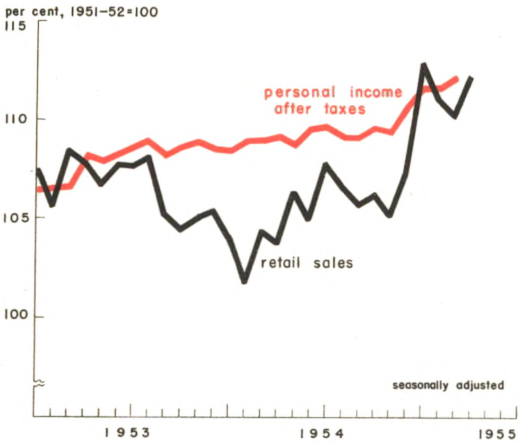
The distinctive forces that have in times past moderated and at other times accentuated the ups and downs of the cattle business now show promise of joining hands and injecting some semblance of stability on the high plateau where the industry now stands. Despite the fact that the build-up in the nation's cattle herd in recent years has followed the "typical" pattern, indicating that a "typical" liquidation could easily take place in the next few years, there is mounting evidence that the cattle cycle has for the present time been corralled.

Retail sales upsurge spurs business

Auto stores account for half of sales gain; higher incomes and additional borrowings provide funds



Sales climb relative to income, following slump in 1953-54



One of the most significant features of the general business recovery witnessed in recent months has been the strength of consumer demand. Retail sales, which had been rather sluggish since mid-1953, spurted sharply upward in November and December to a new record high. Moreover, after allowing for seasonal changes, volume has held close to the higher level in subsequent months.

In percentage terms, the over-all improvement in retail sales has not been striking—5 per cent as compared with last summer and 7½ per cent above a year ago. But because of the tremendous volume of retail trade, this increase represents a lot of dollars. First-quarter sales, seasonally adjusted, were at an annual rate in excess of 178 billion dollars, 8 billion more than in the third quarter and 12.5 billion higher than in early 1954. In comparison, the rate of output of all goods and services since the mid-1954 low has increased about 14 billion dollars.

Much of the advance in retail volume stems from the spectacular upsurge in new car sales. Reflecting sharply higher retail deliveries, the total dollar volume of automobile and accessory dealers in the first three months of this year was 21 per cent larger than in early 1954. But most other retail groups have also enjoyed significant, although more modest, increases. In fact, retail sales *excluding the automotive group* were 4½ per cent higher than a year ago in the December-February period. March sales gains for such groups as furniture and appliance dealers, apparel and general merchandise outlets were considerably larger, partly because of the earlier date of Easter this year.

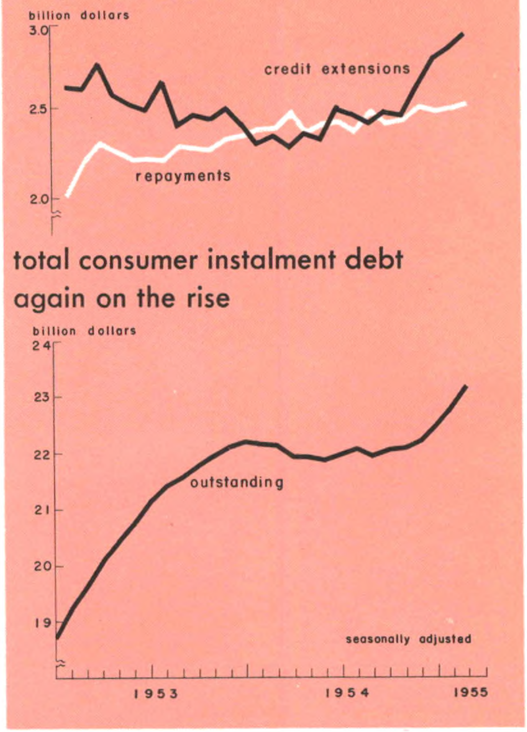
Higher personal income payments have been a major factor supporting the larger volume of retail buying. Over-all, personal income declined very little during the 1953-54 business downturn, and in the past few months appreciable increases have taken place. Moreover the 10 per cent cut in personal income tax rates at the beginning of 1954 served to buoy up spendable income. In fact, total personal income after taxes did not decline at all last year and in January and February had climbed to an annual rate about 6½ billion dollars above that of early 1954.

In addition to larger incomes, consumers have stepped up their rate of borrowing in order to finance their increased volume of purchases. New extensions of instalment credit in the December-February quarter were 19 per cent larger than a year earlier while repayment volume was up only 6 per cent. As a result, such indebtedness climbed 500 million dollars, in sharp contrast to a 320 million reduction in the same months the year before.

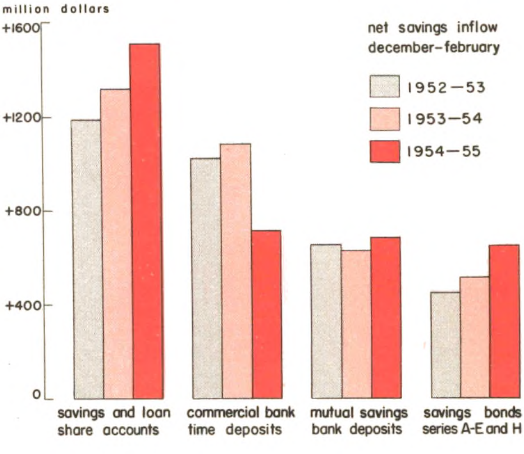
Most of the gain in credit extensions has been for purchase of new and used cars, but personal cash loans and credit granted for purchase of consumer goods other than cars also have recently run moderately ahead of year-ago volume. Down payment and loan maturity requirements have generally been relaxed during the past year, especially in the case of new cars, but lender experience with delinquencies appears to have improved over the same period. Consequently, financial institutions are competing vigorously for new business, and funds appear readily available for further instalment credit expansion.

Despite the increased pace of buying, liquid savings in the hands of the public are continuing to accumulate and apparently at about the same rate as a year ago. Commercial bank time deposits have shown substantially less growth over the winter than last year, and banks in a majority of Midwest centers report a smaller inflow of funds into savings accounts. Over-all, however, smaller increases for banks have been offset by a moderately larger flow of funds into mutual savings banks, savings and loan associations and savings bonds. The rate of *total* personal saving has fallen off substantially as compared with that of a year ago, reflecting primarily the renewed expansion of consumer indebtedness noted above. Personal

Instalment credit extensions up sharply in recent months . . .



Flow of savings to institutions well maintained, except at banks



checking accounts and currency holdings—the most liquid types of assets—may also have been affected by the increased buying, but no current information is available regarding such balances.

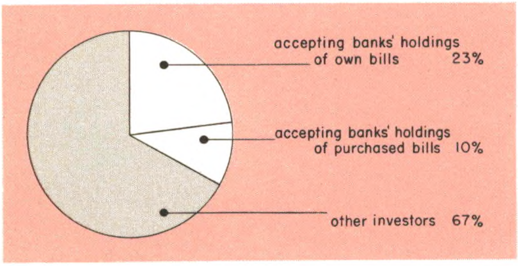
Since consumer attitudes have an important bearing on the level of sales, retailers may be heartened by survey findings that families are generally more optimistic than a year ago regarding both their own financial situation and income prospects and the outlook for business generally. Moreover, incomes have remained high and are currently rising, consumer credit is readily available on liberal terms, and liquid savings balances in the hands of the public are very large and still growing. The large year-to-year gains in new car deliveries posted so far partially reflect earlier model introductions and can hardly be expected to hold throughout the year. Otherwise, however, prospects appear bright for continued strength in retail sales.

Bankers' acceptances rediscovered

After about two decades of virtual disuse, bankers' acceptances in recent years have come to play an increasingly important role in financing both foreign and domestic trade. At the close of 1954, such bank-guaranteed drafts or bills of exchange totaled close to 900 million dollars, an increase over the year of more than 50 per cent.

This past month the Federal Reserve System took steps to further encourage the use of acceptances. During the first week of April, the System began purchasing bankers' acceptances in the open market at the going market rate. By the end of that week, acceptances in the System portfolio totaled 11 million dollars, the largest amount that the Federal Reserve has owned since 1934.

Accepting banks hold one-third of outstanding acceptances



"Accepted"

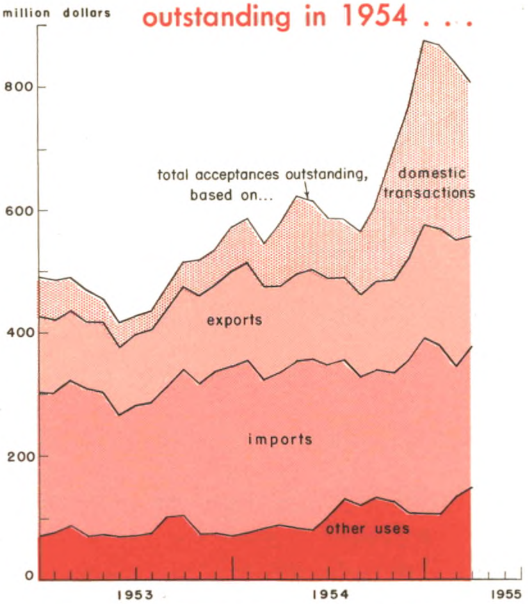
A banker's acceptance is the private financial community's counterpart of the Government's Treasury bill. Like Treasury bills, they can be traded freely from investor to investor. Although they range in maturity from 30 days to 6 months, the great majority of acceptances have a maturity of 90 days.

The liquidity of acceptances is based to only a small extent on the credit standing of the firm on which it is drawn. Rather, it stems primarily from the fact that a well-known bank has added its endorsement to the bill and thereby has guaranteed payment at maturity.

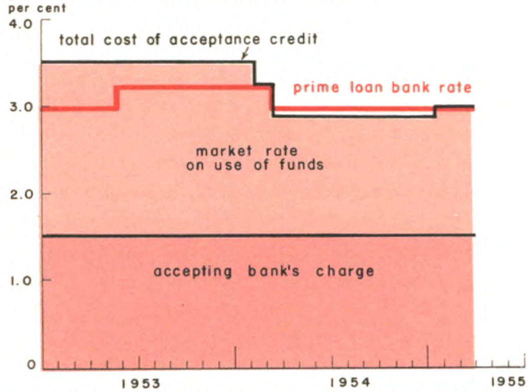
Bankers' acceptances typically start out as drafts or bills of exchange drawn by the seller of goods on the buyer. It becomes an acceptance when the buyer's bank stamps "accepted" on the document and thus indicates it guarantees payment on the instrument at maturity. As a result, the payee finds it easy to sell the obligation and obtain his cash before the payment date.

For lending its credit standing to the bill, the accepting bank charges the seller 1½ per

The sharp increase in the volume of bankers' acceptances outstanding in 1954 . . .



resulted, in part, from the decline in the cost of acceptances below the prime rate on bank loans



cent per year or ⅛ per cent per month. To this must be added the rate, determined by the market, on the use of borrowed funds. At the present time the total cost to prime acceptance borrowers on 90 day instruments is 3 per cent, 1½ per cent for the use of money plus the 1½ per cent bank charge for guaranteeing the obligation.

About one-quarter of outstanding acceptances are sold to or held by the accepting banks. Banks hold another 10 per cent of the total in bills accepted by other institutions. The largest share of acceptances, however, are held by other investors, especially foreign individuals and banks seeking a short-term use for idle balances. In these cases, the accepting bank merely incurs a contingent liability, the actual credit being supplied by the holder.

The special popularity of acceptances with foreign investors stems primarily from their greater familiarity with the instrument, since it is much more widely used in Europe than in the U.S. Hence, acceptances can be an effective instrument for transferring funds between countries in response to interest rate differentials.

Financing foreign trade

The major portion of outstanding acceptances has traditionally been used to finance foreign transactions. At the close of 1953, for example, over three-quarters of all acceptances were for export and import financing. The relative importance of overseas trade in originating acceptances, however, declined sharply in the second half of last year. At the end of 1954, only about 50 per cent of acceptances were issued to cover export or import payments.

This drop reflects the heavy increase in the use of acceptances by domestic commodity dealers, particularly those dealing in cotton.

Increase in outstanding acceptances based on:	1953	1954
	(million dollars)	
Imports and exports	+71	+ 39
Domestic transactions	+11	+225
Other uses	+ 1	+ 33
Total	+83	+297

Inasmuch as the rate on bankers' acceptances fell ⅝ of a percentage point in February and March of last year, many commodities dealers were able to obtain financing through acceptances at a lower total cost than was available to them through direct bank loans (see chart).

The Federal Reserve has re-entered the

banker's acceptance market in order to stimulate the use of the instruments and the transactions it finances. System dealings will have the effect of widening the market for acceptances by giving them even greater salability. Business firms, banking institutions and lenders will become more familiar with the use of acceptances and aware of their convenience and practicality as an alternative financing device for overseas trade and domestic transactions as well.

It is becoming increasingly important for the U.S. to have adequate facilities for financing foreign trade activities if it is to compete effectively in world markets. The further development of the banker's acceptance market can help to provide the necessary credit.

Rebuilding the slums

Although the nation's big metropolitan communities nowadays are very obviously in the vanguard of the nation's over-all growth and development, they do have some serious problems. Ordinarily, the worst difficulties are concentrated in areas near the centers of the core cities, for it is in the close-in sections that land-use patterns are most uneconomic, private and public structures most obsolete and congestion most acute. And it is these facets of big city life that raise costs and whittle away the amenities of life, thus accelerating the flight of businesses and residents to the suburbs. So, revitalizing the big central cities is to a great extent a problem of what to do about the close-in sections.

This is a problem of vast dimensions. First of all, the money needed to treat a decayed urban core is enormous, and there are all sorts of nonmonetary complications. The established patterns of business and residence in the older sections of cities often involve sentimental attachments to homesites as well as vested financial interests. Many residents of the older sections are themselves older people who resist change in lifetime patterns. Tax delinquency and other factors which complicate titles to real estate present further difficulties. No wonder that private enterprise has found more attractive opportunities in the wide open spaces on the cities' fringes and been blocked by the mammoth scale on which rebuilding must be undertaken in the central areas. No wonder also that city governments have been unable singlehandedly to do much about the decaying cores, faced as they all are with tremendous fiscal problems elsewhere within their boundaries.

Action by public authority of some sort is virtually indispensable if real headway is to be made in clearing up the big city slums. This is not to say that there must necessarily be an element of tax-financed subsidy in the urban redevelopment program, because the rebuilding of blighted areas may prove to be a profitable undertaking. Rather, the point is that it seldom pays to do the job piecemeal. To tear down a single building in the midst of a worn-out, decayed neighborhood and replace it with a fine modern structure means to create a new improvement that will be obsolete the day it is finished. The reason for this is that the value or usefulness of a residential building depends intimately upon the condition and appearance of adjacent buildings and the uses to which they are put. Only the wholesale replacement of existing substandard units will suffice. And this requires exercise of the right of condemnation, typically a governmental prerogative, so that whole groups of structures may be cleared away and replaced in one operation. The very fact that the task of rebuilding involves large-scale, across-the-board programming means, then, that public participation in the process offers about the only reasonable hope of success.

The Federal program

Title I of the Housing Act of 1949 offers both local public agencies and private developers substantial assistance in redeveloping obsolescent core areas. In that law the Federal Government provides a stimulus to urban redevelopment by making loans and grants to enable local public agencies to acquire property in blighted areas, assemble and clear such real estate and then sell it at a loss to private developers. This permits the assembly of large parcels suitable for redevelopment and makes the land available at prices making redevelopment a potentially profitable venture.

As Title I and most of the state laws permitting local agencies to operate under it now stand, almost any urban area which is demonstrably blighted can be replaced with almost any type of project. In practice, it is mainly a question of replacing slum housing, since most blighted sections are heavily laced with dilapidated housing. In most cities some of the best residential sections were at one time on the fringe of the central business district. As the cities grew, more factories, warehouses, railroad yards and similar facilities were built near the downtown sections, tending to make close-in residential sections less attractive. At about the same time, better transportation facilities were developing—commuting on steam railroads, streetcars and, finally, gasoline-powered buses and automobiles—which made living farther out much more practical. So the close-in housing tended to be abandoned to low-income families. Many years of overcrowding and lack of maintenance and repair have converted the once swank old buildings into slums.

Thus the principal advantage of close-in sections—their convenient location—is not utilized economically in most cases. If a city were to be built from scratch today, no one would deliberately choose to put up low-rent housing right on the fringes of the downtown section. Instead, these areas would be used for various kinds of industrial structures, for truck terminals, for public buildings and for housing those higher income families willing to pay premium prices for the convenient location. This is the kind of redevelopment which is taking place under Title I. Sections which are mostly composed of slum housing are being replaced with light industry, convention halls, hospital and college buildings, and higher rent housing.

A section does not have to be 100 per cent slum housing to be eligible for redevelopment. Most sites of redevelopment projects now under way or planned include patches of commercial structures and housing in reasonably good repair and vacant real estate. And it is frequently possible to plan projects which leave intact the good existing buildings—the so-called "urban renewal" projects.

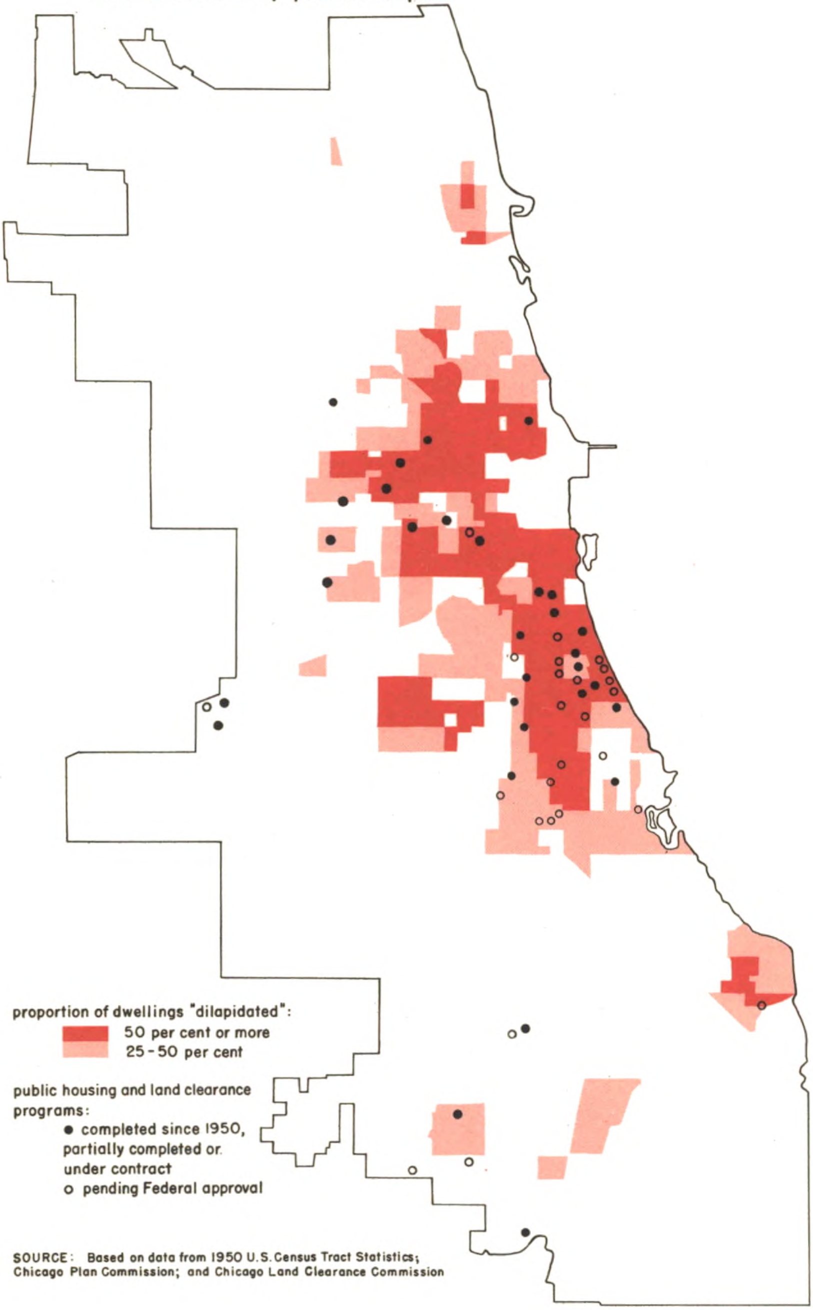
By mid-1954, five years after the inauguration of the Title I program, approved redevelopment projects were under way in over 200 cities. The Federal funds involved in these projects amounted to over 250 million dollars, about half in capital grants and half temporary loans. This indicates that the total costs of redevelopment projects under way probably approach or exceed a billion dollars. However, this is a somewhat misleading picture, for progress is really quite slow and those figures apply to the final costs of approved projects. Less than 40 million dollars in Federal loans had actually been disbursed and only about 10 million dollars in grants by mid-1954.

Chicago and Detroit projects

For example, projects which ultimately will involve nearly 35 million dollars in Federal grants are in the works in Seventh District cities. Actual Federal payments, as loans or grants, have been less than a third of this total. Chicago has eight approved projects, which will receive nearly 23 million dollars of Federal money eventually; by the end of 1954 the city had received only 5.3 million dollars as a partial grant for the Lake Meadows project which is partly completed. Detroit's Gratiot Rede-

Redevelopment projects for Chicago's blighted areas

New programs provide public housing for persons displaced by demolition for slum clearance or rehabilitation — vacated land is rebuilt by private capital



SOURCE: Based on data from 1950 U.S. Census Tract Statistics; Chicago Plan Commission; and Chicago Land Clearance Commission

velopment project will cost the Federal Government close to 5 million dollars; while the city has received substantial Federal loans for the project, it has received no capital grant as yet. New York and Baltimore are virtually the only large cities in the country which have already received substantial grant payments.

Rebuilding the blighted areas is a slow process at best, even when financing is not an obstacle. Planning, razing and construction all take time, but these are not the main obstacles. One difficulty is the slow and cumbersome nature of local government machinery. Usually proposed projects must make their way through several tiers of public agencies. In Detroit, for example, projects are originated by the Housing Commission working with interested private developers but must be approved by the City Council. In Chicago, another tier is added—approval by a state government agency, the State Housing Board. Local governments have to make up one-third of the loss involved in assembling the tract and writing down its price (the Federal Government puts up two-thirds of the subsidy). Usually most of this one-third is made up of streets, sewers, school buildings and other public facilities required for the project area, but where additional cash subsidies are required, the process is further slowed down.

Another obstacle is in the procedures for condemning property and transferring title. Some states permit what is known as "quick taking," whereby title can pass and work be started even before the prices to be paid former owners have been determined, but in most states the lengthy jury trials often necessary in condemnation suits must be completed before the property changes hands. Frequently, difficulties in adjudicating suits over one or a few strategically placed parcels of real estate will hold up the whole project for months or years.

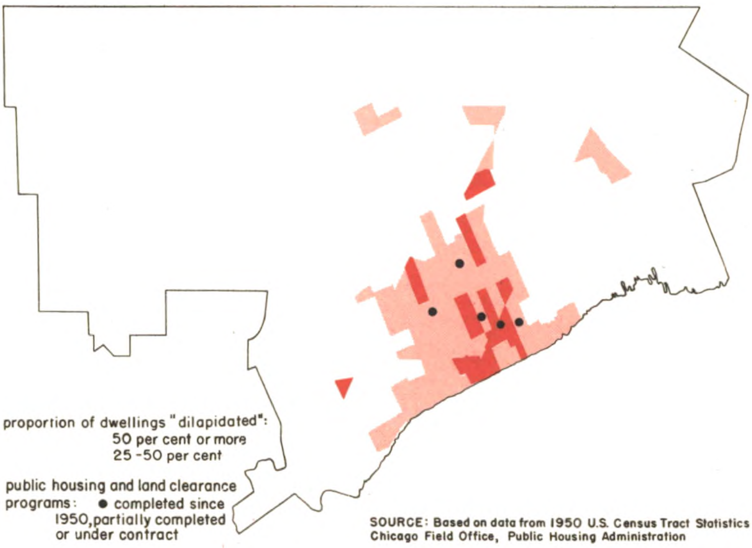
Relocating slum dwellers

Far and away the biggest obstacle to getting a redevelopment project under way is the difficulty involved in relocating the occupants of the slum housing that is to be torn down. This is especially bad because in nearly all cities right now big expressway projects are under way concurrent with redevelopment, and these expressways typically require the demolition of a large amount of housing, often in blighted areas.

Relocating slum tenants is not entirely and probably not even mainly one of low family income. To be sure, quite a few slum families' incomes are so low that they cannot afford to rent or buy adequate housing at current market prices. Many of these people are receiving public assistance because of old-age or broken families or disability of the main wage-earners, and many are marginal members of the labor force who ordinarily have part-time or seasonal jobs. When such families are displaced by redevelopment, relocating them is exceptionally hard. In practice, they either move into other slum sections which are already overcrowded or they move into low-rent public housing projects.

But slum rents are not generally low, and many slum families could "afford" to rent or buy decent unsubsidized housing. In both Chicago and Detroit in 1950, a third or more of the families who lived in slum sections had incomes which were about the same as the incomes of the middle third of the cities' total populations. So, although on the average incomes are lower in slum sections than elsewhere in the big cities, extremely low incomes are not universal in the slums. The real trouble is that in the biggest cities, much of the worn-out and blighted area is occupied by members of minority groups like Negroes and Puerto Ricans, who ordinarily rent or buy housing only in such sections. In Chicago in 1950, two-thirds of the slum districts were a fourth or

Redevelopment projects for
Detroit's blighted areas



SOURCE: Based on data from 1950 U.S. Census Tract Statistics and Chicago Field Office, Public Housing Administration more Negro in population and half were 75 per cent or more Negro. In Detroit the figures were nearly the same.

In practice, the solution adopted has been to build additional public housing projects to house displaced tenants on partly or wholly vacant land. Thus the public housing provisions of the housing laws are intimately involved with slum clearance under Title I, first because there are some truly indigent families now living on the sites of redevelopment projects and second, and probably more important, because of racial patterns in housing. Perhaps recent amendments to the Federal laws which concern home building will encourage private lenders and builders to supply new housing to minority families who can afford it. If private investors do this and build this new housing in moderate-sized projects on vacant or partly vacant land (in order to minimize their own relocation problems), this could alleviate the relocation difficulties the large-scale redevelopment projects face.

All this implies a continuing need for a public housing program of moderate dimensions as a lever to help public and private enterprise clear slums. This is a far cry, however, from the familiar assertion that there are many thousands of families who can afford only substandard housing. In northern cities at least, the American economy has virtually abolished poverty for the employable; need for massive subsidies from tax funds is usually to blast away complicated roadblocks in the path of private enterprise and to aid those unfortunates who through no fault of their own have failed to share in the abundant living our economy affords.

Planning proper redevelopment

When private investors sink large amounts of their own money into expensive new buildings, they ordinarily expect these buildings to be around for many years. But if more suitable and hence more profitable uses of the building sites appear long before the buildings have deteriorated, the owners may tear down the existing structures and build anew. However, when public funds are involved in a project, that is less likely to happen. Thus there should be even more concern than is usual about the fitness of a proposed new project for the suggested site when public funds are involved, whether through Title I or otherwise. This concern is not always in evidence because citizens and public officials understandably are so eager to see their city improved and its blighted areas rebuilt that at the moment any useful redevelopment proposal seems better than none. From a long-range viewpoint, however, the golden opportunity for redeveloping a particular choice site for its most suitable use is unlikely to knock more often than the proverbial once.

This points to the desirability of assigning needed projects definite priorities and choosing appropriate sites for them well in advance. It also suggests holding in check the natural temptation to favor monumental structures over less impressive but often more useful and more needed projects. More specifically, proposals for convention halls, civic centers and college campuses in the hearts of big cities seem to attract more attention than proposals for commercial buildings, hotels, residential structures and so on, although the need for the former type may be a lot less acute and the funds a lot harder to find. Large and repeated doses of enthusiasm are an essential element in any prescription for rebuilding the cores of our older cities, but well-directed enthusiasm is the brand needed if we are to achieve the best long-run use of choice sites and the maximum benefits from the tax dollars spent.

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