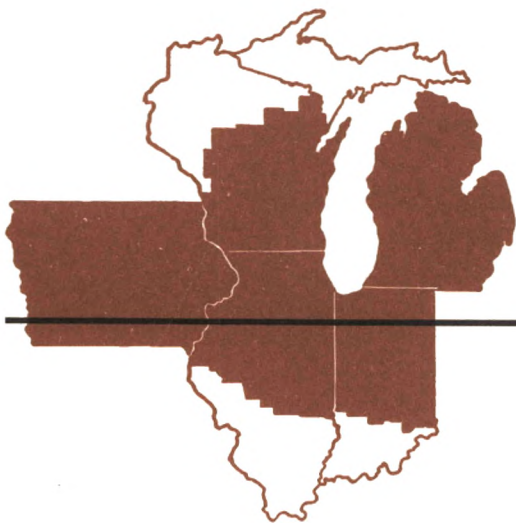


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1956 July



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THE Trend OF BUSINESS

At midyear aggregate business activity remained on a high plateau. Declines in some sectors during the second quarter were about offset by expansion in other areas. Output of automobiles and farm machinery has slumped while industrial and construction machinery and railroad equipment have advanced to new highs.

Business trends during the summer months probably will be clouded even more than usual by seasonal developments. A substantial inventory of finished cars must be worked down, and steel output schedules apparently will be reduced in the third quarter. By fall a clearer picture of the direction of activity should emerge.

Consumer buying was somewhat disappointing in the first five months of this year in the face of higher income and employment. Throughout the period, total retail sales failed to match the annual rate of 190 billion dollars, which was reached in the final third of 1955. However, reduced buying of automobiles alone more than accounts for this decline. Other types of retail sales rose or were well maintained. Since mid-May over-all buying appears to have been reflecting higher income and employment to a greater degree, but consumers continue to spend less vigorously relative to income than a year before.

In April, personal income reached an annual rate of 317 billion dollars—6 per cent above the same month last year. Nonfarm employment also was at a new high of 51.3 million in April and May—about 1.5 million more than last year. Even manufacturing employment was above 1955 despite widely publicized layoffs. Average factory hours have been reduced somewhat from last year, but higher hourly earnings

kept average weekly earnings at \$78.40 in May—off over one dollar from December, but more than two dollars above year-ago figures.

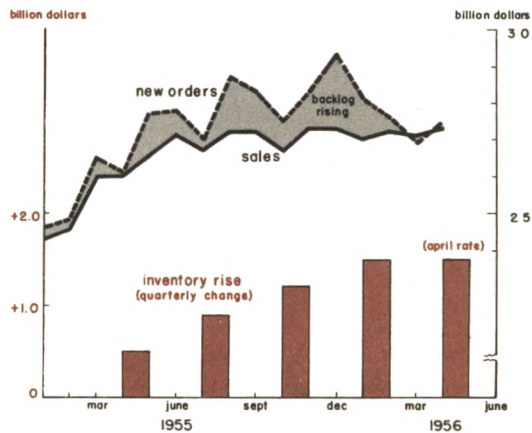
The willingness of individuals to utilize additional spending power will largely decide the course of business in the months to come. Consumption spending accounts for two-thirds of total outlays.

Will business investment slow down?

Business spending for plant and equipment is counted upon as an expansionary influence for the rest of the year, but it is likely that the remaining stimulus from this sector will be less powerful than it has been in the past 18 months. From the start of 1955 to mid-1956, the annual rate of capital outlays rose by 9 billion dollars—over one-third.

Between the second and third quarters, cur-

Manufacturers' order backlog stabilizes, but inventories continue to grow



Steel shipments versus output suggests inventory rise

	Output (Change Jan.-Apr. 1955-56)	Steel shipments
Motor vehicles	- 22%	- 11%
Agricultural machinery	+ 4	+ 11
Industrial machinery	+ 17	+ 27
Railroad cars*	+ 106	+ 69
Household durables	+ 11	+ 17
Furniture and fixtures	+ 9	+ 22
Total industry	+ 6	+ 17

*Three months.

rent estimates of business intentions indicate that the rate of capital outlays will rise by 2 billion dollars. The maintenance of that level in the fourth quarter would produce a yearly total in excess of the projection made last spring for all of 1956.

But changes in business inventories are also a part of business investment. In the past year and a half, business inventory investment rose to an annual rate of 4 or 5 billion dollars, an advance comparable in magnitude to the rise in plant and equipment spending.

The slower rate of new orders relative to sales and the 10 per cent rise in stocks of goods already recorded spell a slowing of the rate of inventory advance. A decline of, say, 2 billion dollars a quarter in the annual rate of business inventory investment in the months to come could offset a further rise in capital outlays.

Inventories have been considered "too high" in certain lines such as autos and trucks, farm implements, tires, textiles and apparel, and certain appliances. These are areas in which production already has been reduced. In some other fields, such as the building materials and the capital goods industries, supplies have become increasingly "adequate" and the need for further accumulation has been moderated.

About two-fifths of the rise in book value of business inventories since last year is traceable to the effects of price increases on the value of existing stocks. Prices of industrial goods continue to rise, but certain raw materials declined

significantly in May and June, suggesting reduced pressure on supplies. Steel scrap had fallen to 44 dollars per ton in early June from a high of 53 dollars the previous month. Natural rubber had fallen to 27 cents per pound before some improvement in early June—only half of the peak price reached earlier in the year. Virgin copper has declined in the flexible London market, and lower prices for copper scrap are being quoted in this country.

Manufacturing inventories rise most

Since the start of 1955 almost two-thirds of the total rise in business inventories has taken place in manufacturing. This meant a somewhat faster rate of gain than for trade firms. In recent months manufacturing has provided the entire push for further inventory expansion.

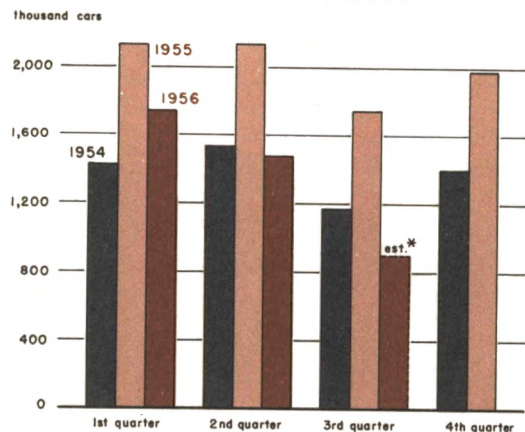
Within manufacturing the durable goods segment has accounted for the bulk of the recent increases. This is somewhat surprising in that durables sales, production and new orders have all declined slightly below the level of late last year. However, inventory accumulation has been largest in the industrial machinery and aircraft industries where order backlogs and output have been rising. But an inventory build-up of finished goods has also taken place in farm machinery, radio-TV and certain consumer appliances such as refrigerators and stoves, where manufacturer and dealer inventories had been accumulated in anticipation of stronger demand.

Although appliance sales at retail have exceeded last year's pace, heavy production has resulted in accumulation of stocks. In early June an industry spokesman estimated factory and dealer inventories as follows:

	1956	1955	Increase
	(in thousands)		
Automatic washers	750	525	+ 43%
Automatic dryers	500	285	+ 75
Electric ranges	400	300	+ 33
Refrigerators	900	884	+ 1

For the first five months factory sales of dryers exceeded last year by 18 per cent; washers were up 6 per cent, after slipping below 1955 in May. Shipments of ranges on the other

Big cut in car assemblies expected in third quarter preparatory to introduction of new models



*Based on Ward's Automotive Reports.

hand barely equaled 1955 during the period, and refrigerators declined.

Steel on the shelf

Steel executives concede that a substantial portion, variously estimated at 10-20 per cent of first-half output has remained in the hands of buyers. In fact it has been estimated that half of all inventory accumulation in the first half of the year is represented by steel in various stages of fabrication. Partly, this increase has been the result of a desire to build up stocks to adequate working levels, but widely advertised prospective price increases, together with the possibility of strike-caused shortages, have strongly stimulated buying. In any case, most user groups were taking substantially more steel than current usage would indicate (see table).

A significant easing of the supply of hot and cold rolled sheet has occurred. Shortages of structurals, plates and heavy pipe remain, but these stringencies will be alleviated by ample supplies of ingot tonnages and the use of some sheet mills to make plate.

In the metal-using lines, the accumulation of inventory has required outside financing. In the first five months of 1956 loans to metals and

metal products firms made by large U.S. banks rose by 1 billion dollars, more than ten times as much as during the same period last year.

Steel production is almost certain to drop substantially in the third quarter. In part, this is because of usual plant-wide vacations, but orders for third-quarter delivery have been slow.

Cars dominate retail stock picture

Between the end of 1954 and February of this year, retail inventories, seasonally adjusted, rose by 2.1 billion dollars or 10 per cent. About 1.3 billion or two-thirds of this rise was accounted for by automobile dealers. In March and April, the total declined by almost 400 million dollars, virtually all of which was traceable to the automotive sector. But dealers did not reduce their stocks of cars during these months; the number on hand or in transit remained at about 900,000, an all-time high. However, since car stocks usually rise in these months, the seasonally adjusted total declined.

An improved selling pace in late May, together with a substantial reduction in assemblies, was credited by *Ward's Automotive Reports* with bringing about a 70,000 cut in new car holdings during the month. June probably saw another reduction in new car inventories. However, a drop in new car output below the one million mark for the first time since 1952 probably will be necessary in the third quarter to bring stocks of 1956 models down to acceptable levels before introduction of the 1957's. This rate of output would be 40-50 per cent below last year. It is hoped, of course, that consumer demand for new models and dealer restocking will bring a sharp increase in assemblies in the fourth quarter.

Department store sales, slowed by late arrival of warm weather, improved in May and early June, helping to justify an inventory bulge which had developed early in the year. At the end of April, department store inventories had been 10 per cent larger than year-ago whereas sales were only slightly higher. Apparel and accessories accounted for most of the inventory gain relative to sales at these stores.

Meat supply to diminish

The tide is turning in meat supplies. Perhaps a more apt expression would be: "the flood is beginning to recede a bit."

By past standards, recent output of meat has been in flood stage indeed! Last year consumption of red meat amounted to 161 pounds per person, the highest figure since 1908. The 1955 record exceeded consumption a year earlier by 8 pounds and was a full 15 pounds above the 1947-49 average.

For meat packers and distributors 1955 was a good year because of the large volume. Moreover, housewives shopping at retail counters liked the low prices that accompanied heavy supplies. But joy did not abound everywhere; it was a bad year for hog raisers and cattle feeders. Fat steers sold at their lowest level since 1946, and hog prices dropped to pre-World War II figures in the latter months of 1955.

The crest

In the first quarter of this year the flood continued to surge higher as output of both pork and beef exceeded year-earlier amounts by about 12 per cent. The larger output of pork reflected the expansion in number of hogs raised in 1955 while the increased output of beef reflected the larger number of cattle placed on feed last year as well as the heavier weights at which they were marketed. Many steers had been kept on feed an unusually long time as farmers vainly waited for the usual seasonal price rise.

The second quarter of this year continued to see meat production run above a year earlier, but by a smaller margin than in the first three months. Estimated output of pork and beef exceeded year-ago amounts by 8 and 5 per cent, respectively. The margin in pork production diminished because the 1955 fall pig crop was marketed earlier and at lighter weights. The edge in beef output declined as feed lots were

cleared of heavy steers carried over from the previous year. In fact, for one week in mid-May total meat production dipped below a year earlier for the first time in many months.

Although the USDA forecasts 1956 meat consumption at 162 pounds per capita—one pound above 1955—the increase is already behind us. For the remainder of 1956 it is expected that supplies will be slightly smaller than year ago, with pork primarily responsible for the dip. For the present at least, it appears that output of meat has crested.

Hog-corn ratio drops

Over the long pull the price of hogs per 100 pounds has averaged about 12 times the price of a bushel of corn. That is, the market value of 100 pounds of live hog would buy approximately 12 bushels of corn. In 1953, owing to high hog prices, this hog-corn price ratio was 15—well above average. Farmers responded by increasing the number of pigs raised the following year by 11 per cent. In 1954 hog prices held at a high level in the first half of the year, and

Meat production showed biggest gains over year ago in the past fall and winter

	Production, 1955	Per cent change from year ago	
		1955	1956
	(billion pounds)		
First quarter	6.2	+7	+11
Second quarter	5.9	+7	+5*
Third quarter	6.2	+5	0*
Fourth quarter	7.2	+9	-3*

*Forecast, based on USDA data.

the effect of a drop in the last half was mitigated by a simultaneous decline in corn prices. For the year as a whole, the hog-corn price ratio again averaged 15, and there was an additional 10 per cent increase in the number of pigs raised in 1955.

Reflecting the rise in hog production and the subsequent increase in output of pork, consumption climbed from 60 pounds per person in 1954 to 66 pounds last year. During the final quarter of 1955, when hog marketings were heaviest, Americans ate pork at an annual rate of 80 pounds per capita.

But lower prices were required to entice people to boost their consumption. Consequently, pork prices declined sharply, and the price of hogs dropped precipitously. At the summer peak in June 1955 farmers sold hogs for an average price of \$17.70 per hundred pounds. At the winter low in December the price aver-

aged only \$10.60, a plunge far exceeding the usual seasonal decline of around 20 per cent for that period. The price of corn also dropped, but much less than the drop in hog prices. As a result the hog-corn price ratio skidded from the relatively favorable level of 13 in June to the distinctly unfavorable level of 9 in December. Moreover, while the ratio has risen in the months since then as both corn and hog prices have advanced, it still is below average.

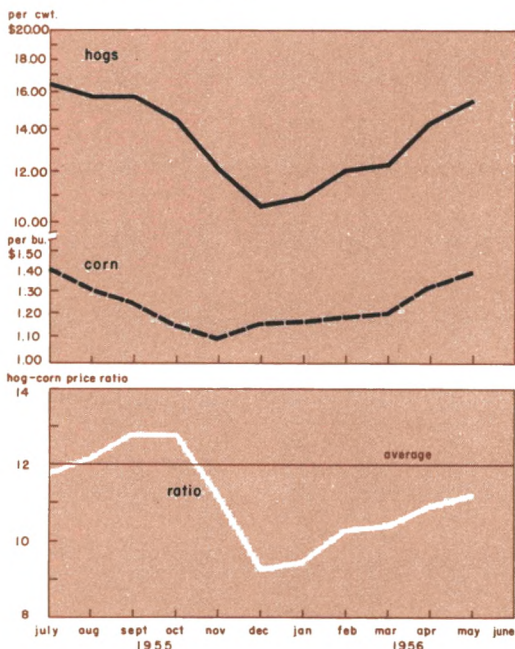
Less pork ahead

The low price of hogs in relation to corn has caused some farmers to reduce hog production. A survey taken last month indicated that the spring pig crop—those born between December 1 and June 1 and marketed largely in the second half of the year—is 8 per cent smaller than a year ago. Earlier surveys had indicated that the spring crop would be down, but by lesser amounts. A December query indicated only a 2 per cent reduction but by March farmers reported a further retrenchment in their plans.

Meanwhile, farmers placed a larger share of last year's corn crop under price support loans. Impoundings have been about 80 per cent greater than a year ago, and this has led to a tight supply of "free" corn. Consequently, corn prices have surged upward; they are now a full 35 per cent above the harvest low of last December. Because of the supply situation, it is likely that the price of corn will remain near current levels through the summer.

The continuation of an unfavorable hog-corn price ratio despite the summer bulge in hog prices was expected to elicit a reduction in the fall pig crop this year. This is now confirmed by the June pig survey, which reports that farmers intend to trim the fall crop, also by 8 per cent. This indicated reduction may be due in part to the effects of the new price support policy on corn. Since corn not in compliance with acreage allotments is to be supported at \$1.25 a bushel, it is expected that more farmers may take loans on their 1956 corn crop in preference to assuming the risks of feeding hogs. Thus, after the third quarter of 1956, pork sup-

Drop in hog prices late last year pushed hog-corn ratio well below average



plies should run steadily below a year earlier with hog prices above the low levels which prevailed from October 1955 to March 1956.

Upsurge in beef production

Although consumers increased their pork intake six pounds per person from 1954 to 1955, in the latter year per capita consumption was still below the levels for eight of the ten years since the end of World War II. On the other hand, beef consumption last year, while only two pounds above 1954, exhibited its fourth consecutive year of increase and exceeded by

12 pounds the figure reached in 1947 when output attained its previous cyclical peak. Thus, although pork has been the main source of the most recent rise in meat supplies, beef originally sent the river up to flood stage.

The marked expansion of beef production that began in 1952 was the result of an earlier build-up of the cattle herd on farms and ranches which had started in 1949. Historically, the number of cattle in the U.S. has followed a "cyclical pattern with an underlying upward trend." That is, the cattle inventory usually has

—continued on page 15

Business loans at big Midwest banks

Business borrowers account for over 40 per cent of total bank loans. In general, the larger the bank the higher the proportion of its loans that go to business. To cast new light on this major banking function, the Federal Reserve System conducted a nationwide survey of business loans outstanding last fall.

This article reviews the business loan portfolios of Midwest banks which have deposits of 100 million dollars or more. Thirty of the Seventh District's 2,500 banks fall into this group. Their business loan portfolios at the survey date totaled 3.1 billion dollars, 72 per cent of the total for all District banks.

Business loans outstanding
at large banks
October 5, 1955
(million dollars)

Total, 30 banks.....	3,132
Chicago	2,162
Detroit	539
Milwaukee	185
Indianapolis	141
Other	105

The charts on the following pages show the extent of variation in some loan characteristics

of these large banks in the four largest District cities.

What kinds of businesses borrow from these banks? The occupational list of borrowers reads like a Midwest business directory.

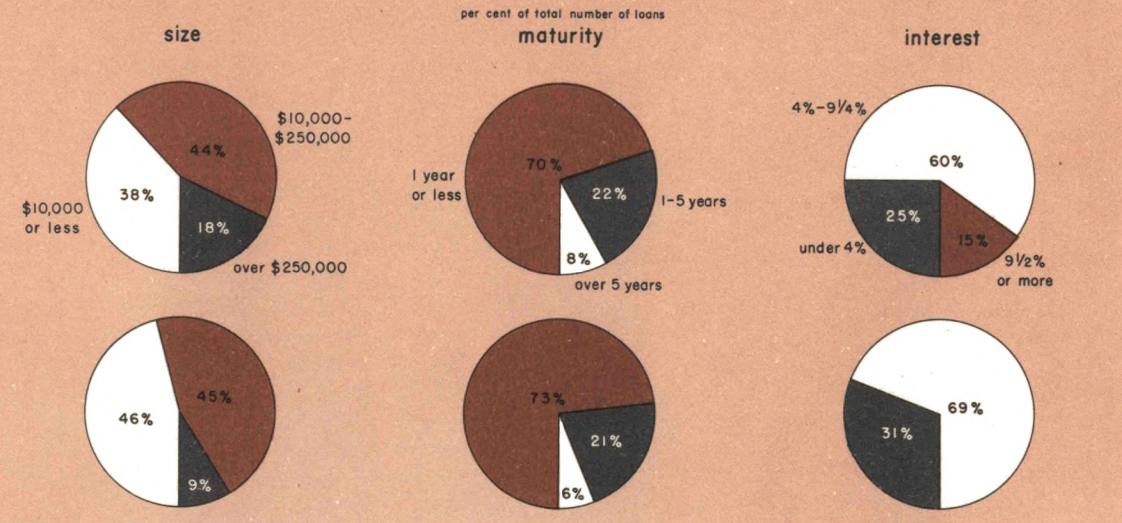
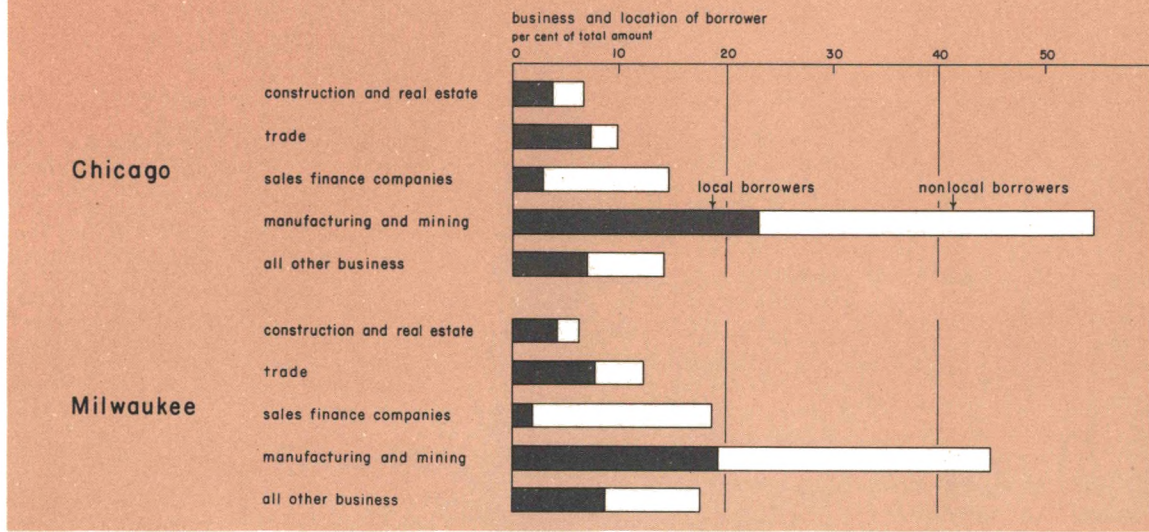
Metals firms—largely the fabricators of automobiles, appliances and other consumer durables—borrow the most money. Sales finance companies, which are primarily devoted to financing consumer purchase of these items, are the next largest users of bank credit. Wholesale and retail trade firms drop into third place, followed by producers of oil, coal, chemicals and rubber, and processors of food, liquor and tobacco. Together these groups account for over two-thirds of outstanding business credit.

However, these largest users of bank credit are not the kinds of borrowers who appear most frequently at the loan desk. Although metals firms get one-fifth of the loan dollars, they account for only 11 per cent of the loans. On the other hand, mercantile businesses, with 12 per cent of the dollars, account for nearly one-third of the number of loans. Real estate, construction and service businesses, with 11 per cent of the dollars, make up another third of the loans.

Business loan portfolio characteristics vary among large Midwest banks

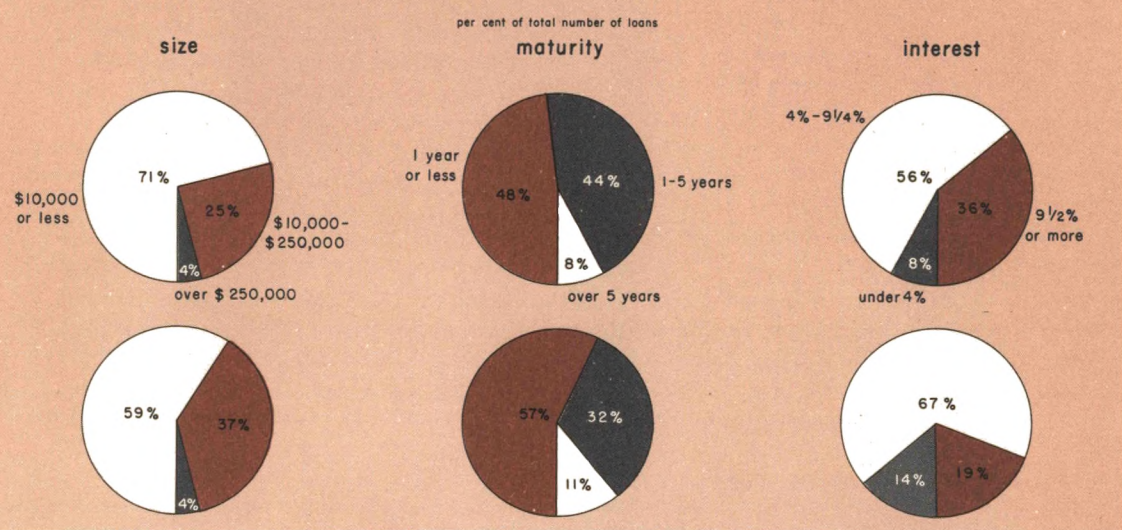
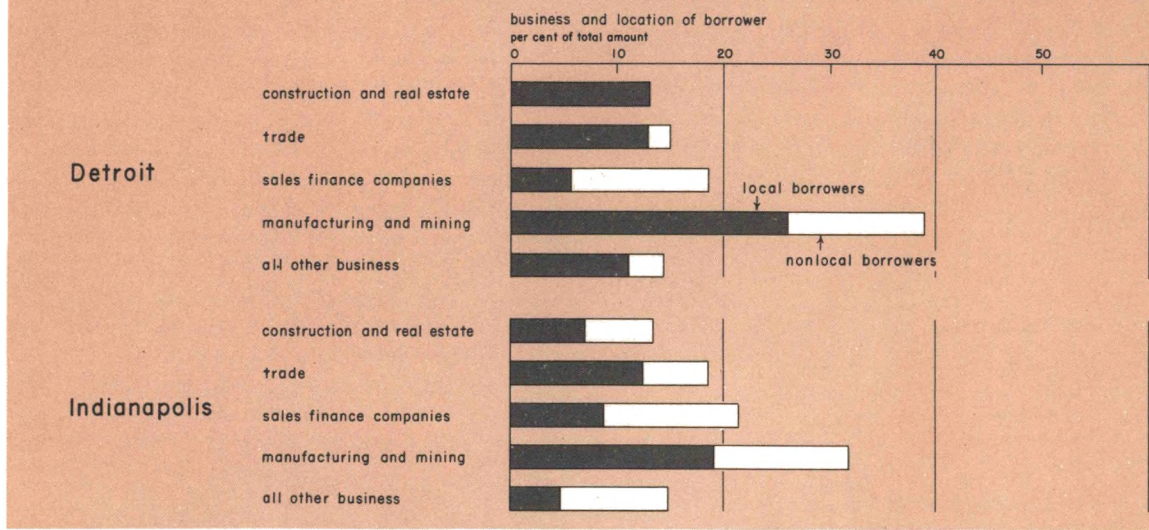
In dollar amounts, Chicago and Milwaukee banks loan a large portion of the total volume to industrial borrowers and over half to nonlocal borrowers . . .

In number of loans, Chicago and Milwaukee banks have relatively more large loans, short-term loans and loans with low effective interest rates . . .



While in Detroit and Indianapolis, loan dollars are more evenly divided among different kinds of borrowers and a larger share goes to local concerns

Detroit and Indianapolis banks have a higher percentage of small loans, long-term loans and loans at higher rates



The sharpest concentration of loans to industrial firms is in the big Chicago banks, where mining and manufacturing enterprises account for over half of business credit. To some extent the area-by-area variation in the pattern of loans by kind of business is a function of bank size. The credit needs of the industrial giants, which are mostly manufacturing, sales finance and public utility firms, can be accommodated only at the very largest banks, say those with deposits of half a billion or more, and most of these are located in Chicago.

Contrary to popular impression, a close geographic relationship between bank and borrower does not necessarily exist. Just as some large borrowers operate on a nationwide basis, big lenders do likewise. This is in part a result of the limitations on loans to any one borrower and the efforts of lenders to minimize risk in their portfolios.

A few of the large Midwestern banks confine their lending to borrowers within their own metropolitan areas. Others have as much as two-thirds of their business credit extended to nonlocal borrowers. Detroit banks, for example, have a relatively heavy proportion of loans to local borrowers. Many Midwest metals firms are concentrated in the Detroit area. Although most of the funds which the largest of these concerns borrow in the Midwest come from Chicago, they also account for a large part of Detroit banks' loan volume. Also many small parts and equipment manufacturers of southeastern Michigan are accommodated at their local banks. Other business of more limited scope—for example, wholesale and retail trade firms—also borrow for the most part in their own localities.

Most loans to sales finance companies are classed as "nonlocal," because of their head-office locations. Many are too large to have their total credit needs met by any one bank and must borrow all across the nation. But the funds are also re-lent to consumers in many localities, so money borrowed in a given town may actually be disbursed there even though the company's headquarters is many miles away.

How big are the borrowers? Business size is hard to measure. Total assets may be a good yardstick in one line, net worth in another or number of employees in still another. Nevertheless, loan size can serve as a rough guide. Loans of \$10,000 or less are almost sure to be to small businesses, while those of over a quarter million dollars are bound to be to the industrial and commercial giants. In between are the loans to medium-sized firms and occasional borrowings of the other two groups. The big firms dominate the dollar figures, of course, but they are a small minority of the customers. Actually the big banks lend to all kinds and sizes of business. The small operator who needs 5 or 10 thousand dollars is by no means a stranger to their loan officers.

The smaller average loan size outside Chicago is associated not only with smaller bank size but also with the fact that several of the largest banks in other District cities have numerous branches which accommodate many small customers. The large Chicago banks, with their single Loop locations, are in a less strategic position to serve such customers.

For how long can business borrow? The survey does not answer the question exactly, but some reasonable estimates can be made on the basis of the evidence. Seasonal borrowers generally obtain funds for the period of their annual inventory bulge. Others may borrow on demand notes and use the money for periods of up to a year or perhaps even longer. Still others borrow on short-term notes, paying off or renewing the loan at maturity as business conditions dictate. Many borrowers are subject to at least an annual "cleanup," that is, they have to get out of debt periodically. But somewhat over one-third of the business borrowers are accommodated with "term" loans having formal maturities in excess of one year. These loans are generally used to finance the purchase of machinery and other long-lived assets. The relative volume of these loans is slightly higher in the Midwest—an area of industrial concentration—than in the nation as a whole.

The price of credit varies, due not only to the risks stemming from the nature of the busi-

ness and the caliber of its management, but also to the size of the loan. There are certain fixed costs of loan granting—credit investigation and the inevitable accounting work—which are relatively higher for small loans and tend to boost interest rates on them even without regard to the risk element. The relatively large volume of high rate loans in the Detroit banks is in part a function of their many small customers

and longer-term loans. These banks make many instalment loans at 5 and 6 per cent discount for effective rates of 9½ per cent per year or more.

Nevertheless, for the District's big banks as a group more loans are made at 5 per cent than at any other effective rate. With the exception of Detroit, over half of these business loans are at 5 per cent or less.

Metropolitan government— too many cooks

One of the biggest big-city headaches is government. That is, the problem of providing the myriad public services—schools, roads and transit, police and fire protection, water and sewers—without which safe, comfortable and efficient urban living is impossible.

America's cities have been swelling and spilling over their rather fixed boundary lines at a prodigious rate. But the governmental structure at hand to accommodate the urban flood is an antiquated one. In most places, local government machinery, designed in the nineteenth century, has a hard time organizing needed services, not to mention financing them. Basically, the problem is that local government in nearly every metropolitan area is almost in-

credibly fragmented, despite the fact that a metropolitan area's problems and resources are area-wide.

Some background

Close to 60 per cent of our population lives in 172 metropolitan areas—that is, in and around cities of 50,000 and up. This is in contrast to 75 years ago, when the population was nearly three-fourths rural. Recently, about 80 per cent of the population growth has occurred in metropolitan areas, but the fringes of these areas are growing almost *three times* as fast as the core cities.

The 30 largest metropolitan areas—those with over half a million residents—have over a third of the total population.

A larger metropolitan area is typically served by 150 separate governments; but four areas have over 500 separate governments.

Local governments in the 30 largest areas spend over 11 billion dollars a year for public services.

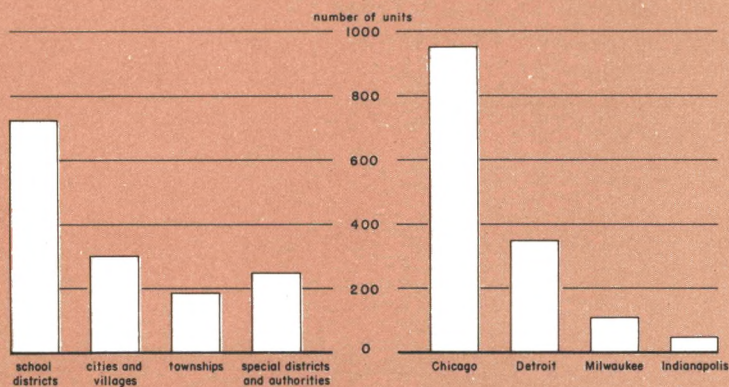
Local governments' jobs

What do all these public agencies do? Take the Chicago area, probably the nation's most

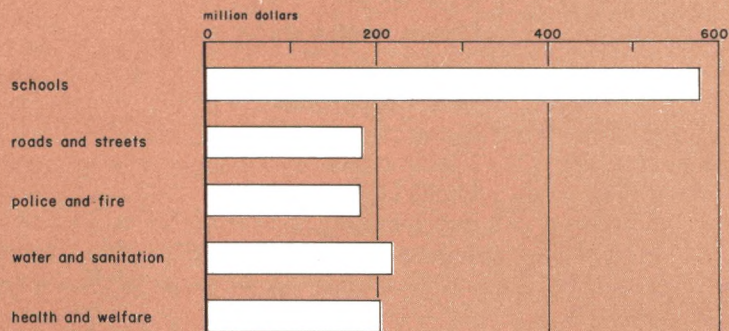
This is the latest of a series of articles generally dealing with big-city problems. Earlier stories concerned the economic future of the big city (November 1954 *Business Conditions*), transportation difficulties (February 1955) and the slums (May 1955). Copies of these issues are available on request.

In the four largest Seventh District metropolitan areas — Chicago, Detroit, Milwaukee and Indianapolis — which together have 40 per cent of the District's population . . .

nearly 1,500 local government units . . .



spend nearly 2 billion dollars a year



complex from a local government standpoint. Right now, over six million people live in the six-county area. They are served by 960 distinguishable, more or less autonomous units of government, which spend close to a billion dollars annually. Over 400 separate school districts provide primary and secondary schooling for 900,000 pupils at a cost of nearly 350 million dollars a year, while an additional 350,000 parochial school students are educated at no

public expense. More than 300 units—the six counties, 108 townships, nearly 200 cities and villages, and park districts—have something to do with building and maintaining roads and streets. Cost: 100 million dollars. Nearly all the cities and villages distribute water (over 1,200 million gallons are pumped on an average day), and many originate their water supplies. Most of them provide sanitation services, although there are also a number of independent special purpose sanitary districts. Water and sanitation add another 100 million dollars to government costs. Over 200 municipal, park district and county police forces serve the area; most, but not all of the area is served by municipal fire departments and special fire protection districts. Police protection costs about 65 million dollars annually, fire protection about half as much.

Chicagoans pay taxes to at least six local governmental units—county, city, school board, sanitary district, park district and forest preserve district. They buy services, through fees or charges of various kinds, from a number of public authorities — regional port authority, transit authority and housing authority. Their suburban neighbors are apt to be served by the same or similar agencies plus the township government. Usually there are separate school

districts for grade schools and high schools in the suburbs. All this is not to mention the state government, which takes care of the area's mentally ill, provides for its indigents, offers college education to its youth, builds part of its highways—super and regular—at a total cost of over 50 dollars per person per year.

Clearly local government is a big business. Just as clearly, a metropolitan community is so closely knit that the quality of many services—roads, police and fire protection, water and sewers—must be high everywhere within the area if it is not to grow lopsidedly or unevenly. Moreover, an area's economy is complexly inter-related and specialized. The kinds of taxes used by local governments, by following political boundary lines fixed years ago, do not neatly relate taxpaying capacity and needs.

Lacking services

Wide variations in local agencies' financial resources, augmented by differences in scales of operation and competence, have led to gaps in needed services and serious fiscal problems despite the fundamental prosperity of most urban areas. Often newly built-up, but unincorporated, sections in fringe areas are completely without certain public services—streets are unpaved, septic tanks provide the only sewage disposal, fire protection is nonexistent. Overcrowding of schools in rapidly growing suburban areas is by now proverbial, as are the yearly summer water shortages. Generally, in their initial phases, newly built-up sections can make do with services below urban standards. As population density increases, however, septic tanks become a health menace, the lack of fire departments becomes a serious potential danger, and the ground water level tapped by small local water systems becomes less adequate.

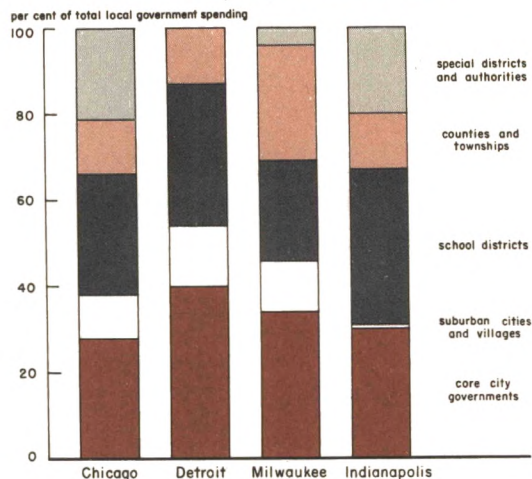
In some instances, the lack of needed services is due to a system of local government which for all practical purposes empowers no agency to serve the newer areas. More frequently, services can be truly adequate only if organized and supplied on a larger area basis. This is typically the case with regard to water supply and sewage disposal. Sometimes along with

serious defects in some services others are supplied in duplicate by several public agencies.

Along with the fragmentation of governmental machinery goes fragmentation of the tax base. This makes it difficult to finance services for which existing machinery may be otherwise adequate, like schools. The problem here is that in the newer more rapidly growing suburbs the need for additional public services is high relative to the tax base at hand. In part, this is because in such communities there is no legacy of existing public facilities to help handle the burdens; they usually must be built from scratch. Moreover, suburbanites tend to impose disproportionately high burdens on public agencies, since they have more school-age children per family, use more water and so on.

To cope with these needs, the local governments have a real estate tax base composed of new homes and very little else. That is, they lack the high-value industrial and commercial properties whose service needs are much more moderate. So in the suburbs, governments quickly bump up against the ceilings on taxing and borrowing imposed by state laws and constitutions. If state laws permit municipal sales

Core city governments provide less than half of local government services in large metropolitan areas



or other nonproperty taxes, this helps only where the communities have or develop significant volumes of retail sales or other taxable transactions within their own jurisdictions.

All these difficulties are getting worse, not better, as the suburban sections of metropolitan areas continue to grow at a rapid rate. For example, the suburban portion of the Chicago metropolitan area has grown by about one-fourth since 1950 and can be expected to increase another 35 per cent—or by 800,000 persons—by 1965. In other major Midwest centers, the suburban ring has grown and is apt to keep growing even more rapidly. By 1965, as many as 60 million Americans may be living in suburbia—as against fewer than 26 million in 1940. No wonder that new approaches to local government in metropolitan areas are sought in all parts of the country and by all kinds of public officials and citizens.

New government machinery?

Reshaping local government machinery is high on the agenda of prospective reforms. In the past ten years, there have been at least fifty major surveys of government in particular metropolitan areas, according to material prepared by the Government Affairs Foundation in connection with a National Conference on Metropolitan Problems, recently held at East Lansing, Michigan. Sixteen of these surveys, most of which are still under way, concern Seventh District cities. Although few surveys have as yet resulted in major changes in local government structure, the few cities that have made important innovations are being studied closely and their examples may be followed.

The innovations consist of some form of consolidation of fragmented metropolitan governmental units. One form assigns much more of the job to the core city government by extending its boundaries substantially through annexing surrounding incorporated and unincorporated territory. This was done on a large scale in Atlanta in 1952 and has been significant in Madison and Milwaukee and in southern cities in recent years. A 1952 study of Indianapolis

recommended extension of the city's boundaries to include nearly all the built-up fringes. In the largest and oldest centers, however, large-scale annexation is not feasible because the core cities are surrounded by well-established suburban municipalities.

Another type of consolidation is integration of the core city and county governments, sometimes by complete absorption of the county government where the boundaries are identical, sometimes by redistributing their functions so as not to overlap. Leading examples are Atlanta's and Baton Rouge's 1949 reforms. A less drastic variant has much to commend it and is feasible where the built-up area is substantially confined to a single county. This is modernization of the county government's own machinery to enable it to cope with urban problems more effectively. Such changes were recommended in a study of Milwaukee County concluded a few months ago.

Most sweeping are proposals to set up a federated or two-level system of government for metropolitan areas. Under these proposals, the existing scattered local units are retained to provide certain services autonomously on a strictly local basis. In addition, a new tier—a metropolitan government—is established to provide services which can most clearly be economically handled only on an area-wide basis. This has the advantage of preserving close-to-home local self-government, while effectively dealing with area-wide problems. In half a dozen areas, federated government has been proposed. On January 1, 1954, the federated Municipality of Metropolitan Toronto actually went into operation. In this country, a similar plan will go into effect soon in metropolitan Miami if approved by Florida's voters in November, and the Pennsylvania legislature is expected to approve a federated governmental structure for the Pittsburgh area.

The authority

Survey commissions worried about the multiplicity of public agencies in urban areas are understandably loath to propose the establishment of even more new units to deal with

specific area-wide problems, like sewage disposal and transit. Yet this is by far the most popular innovation in American cities. Single-purpose units like sanitary districts, park districts, transit authorities, health and hospital districts, port and airport authorities and housing authorities have been springing up in profusion for three or more decades.

To be sure, this multiplication of new agencies further complicates an already involved and complex structure of government. The popularity of these specialized units derives from a number of advantages. For one thing, setting them up seldom offends the sensitivities of established public agencies, nor does it give rise to suburbanite fears of central city domination. Then too, most special units provide services of a utility nature—that is, services for which the users directly pay prices or other charges. These special financing arrangements compartmentalize the service automatically, and it is frequently felt that an agency divorced from other responsibilities and pressures can handle it on a more businesslike basis. If the service is financed by more traditional means—property taxes and general obligation bonds—a separate unit often affords a means of circumventing legal restrictions on taxing and borrowing.

Actually, setting up new special authorities is not the only way to take advantage of the financial methods they employ. Though core cities and suburbs frequently charge each other with responsibility for their fiscal difficulties, both pay their own way in the main. Central cities and suburbs support their own general community services, like schools, police forces and fire departments. Water and sanitation services are paid for by the users directly, and

gasoline and vehicle license taxes largely support the main roads and streets. To some extent commuters do use central city services supported by general taxes. But on the other hand, most property tax collections in central cities come from owners of industrial and commercial property. Such taxes are shifted to customers or stockholders, whether they live in the city, the suburbs or in an entirely different part of the country.

The real sources of fiscal difficulties are the greatly increased demand for public services accompanying population growth and movement and higher living standards, the relative unresponsiveness of the property tax to these demands—especially when hemmed in by state-imposed limits on rates—and, for suburban school districts, the paucity of high-value non-residential real estate to tax. The solutions? First, a more widespread and intensive use of special charges for the many public services, like water, sewers, streets, airports, transit and so on, which are much like the products of private utilities. Second, a modernized property tax in which assessment and collection machinery is up to date. That is, assessments reflect the economic growth which underlies the growing demand for public services, and tax collections follow more closely on the heels of assessments. For suburban school districts, perhaps the only solution is access to broader bases of taxpaying capacity—either through increased shares of state-levied sales and income taxes or consolidation, at least for taxing purposes, into county-wide or area-wide districts, thus cutting more suburbs into the region's non-residential real estate tax base.

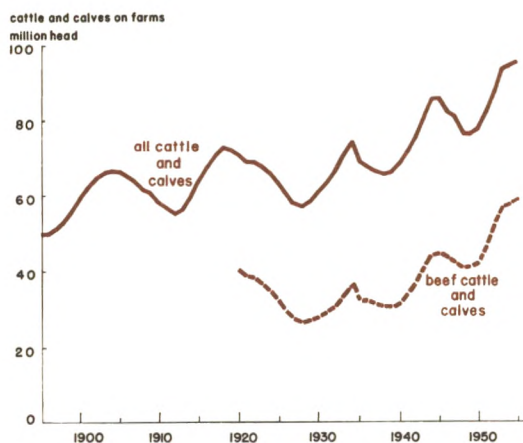
Meat—*continued from page 7*

risen for five to seven years and then declined for anywhere from four to nine years, following which numbers have risen again to a peak higher than the previous one.

During the period of most rapid growth of the cattle inventory, marketings are small as

producers withhold stock to add to breeding herds. As a rule prices are relatively high at that time. But as cattle numbers rise and the rate of inventory build-up tapers off, marketings are increased. And in years of inventory liquidation, the sale of breeding stock causes marketings to rise still more. Of course, as marketings

Cattle numbers fluctuate around a rising trend



increase, the output and consumption of beef go up and prices come down as, for example, in 1951-55.

Plateau in the cattle cycle

Apparently the current cycle in cattle numbers is not going to show a "peak." Rather the inventory appears to have been poised on a high "plateau" for the last four years.

During the first four months of 1956, marketings of cattle and calves totaled 3 per cent more than a year earlier. If this margin were to be maintained, the inventory of cattle on farms at the end of the year would remain close to the year-earlier figure.

The number of cattle marketed over the remainder of this year, of course, is necessarily uncertain. Among other things, the weather will have an important influence. Drouth in major grazing or fattening areas could cause heavy marketings and lead to liquidation of breeding stock. On the other hand, lush pastures and good crops would tend to encourage some further enlargement of the inventory. Assuming average weather, the number of cattle marketed during the remainder of 1956 is likely to be near the year-earlier figure.

Less prime beef this fall

The margin between prices of grain-fed and feeder cattle has been relatively narrow for the last 12 months. This has led to generally unsatisfactory returns to cattle feeders, and recently they have been exhibiting no great enthusiasm for increasing cattle feeding activity. In the first five months of this year inshipments of feeder cattle into Corn Belt states lagged year-ago shipments by 12 per cent. An April 1 survey showed the number of cattle on grain feed to be down 8 per cent from a year earlier.

It seems likely, therefore, that both the number and weight of grain-fed cattle slaughtered during the remainder of this year will fall below year-ago levels. This would mean that supplies of top-quality beef would be reduced and that prices of prime and choice cattle would show a larger than normal seasonal rise. By the same token, a large volume of marketings of the lighter weight and lower grades of cattle direct from pasture areas would increase the price margin between the top and lower grades and improve the situation for Corn Belt cattle feeders.

The flood recedes

Farmers have responded to the unfavorable price ratios and profit experiences of the last 12 months by shrinking their hog raising and cattle feeding operations. Consequently, in the next six months total meat supplies per capita should dip under year-ago figures. In turn, this implies higher prices for pork, hogs, prime beef and grain-fed cattle in coming months than in the corresponding year-earlier period.

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