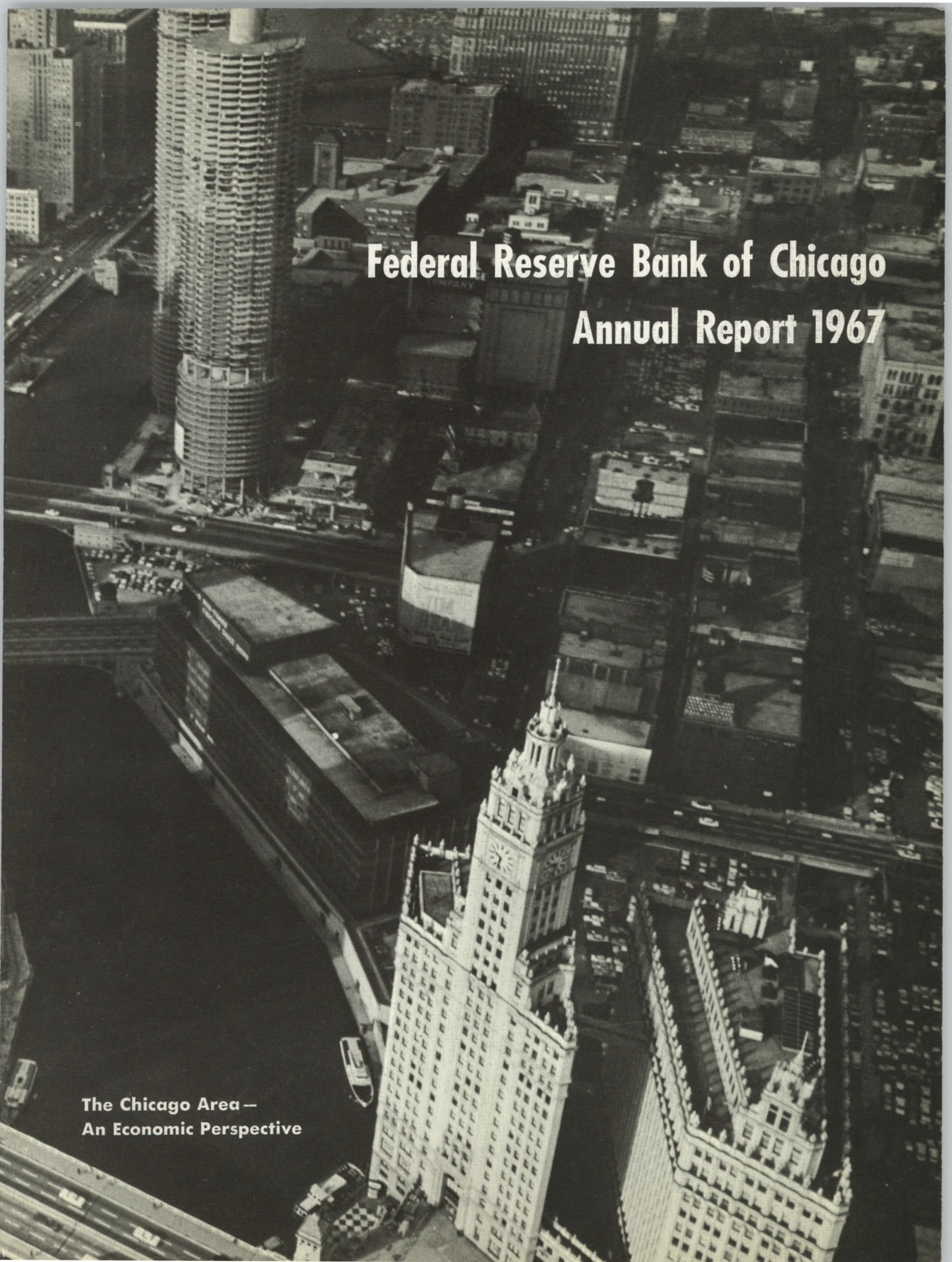


Federal Reserve Bank of Chicago
Annual Report 1967

The Chicago Area—
An Economic Perspective

To Member Banks of the
Seventh Federal Reserve District:

This was a good year for the district. Business activity increased again for the seventh straight year, and the immediate Chicago area appears to have been making more economic progress than most large metropolitan areas. Economic developments in the district are summarized beginning on page 8. A special report on the Chicago area appears as a supplement to the basic report.

Assets of the bank increased nearly $579 million in 1967, to a total of more than $12 billion. Net earnings were $331 million, compared with $289 million in 1966. Of that, $321 million was transferred to the Treasury. Financial statements are provided on pages 4 and 5.

The volume of transactions handled by the bank continued to rise with the increase in business activity in the district. The bank cleared and collected 960 million checks, received and counted 670 million pieces of currency and more than a billion coins, and performed services for the federal government that included issuance of 26.8 million Savings Bonds and processing of 2.6 million tax receipts. The services of the discount window were used by 198 member banks during the year. Other details of the bank's operations are given on page 6.

On behalf of the directors, officers, and staff, I thank you for your cooperation and counsel, which helped in providing continued high-quality financial service to the public.

Sincerely,

Charles J. Scanlon

CHARLES J. SCANLON
President

February 23, 1968

DIRECTORS

FRANKLIN J. LUNDING
Chairman of the Finance Committee
Jewel Companies, Inc.
Chicago, Illinois
Chairman and Federal Reserve Agent

ELVIS J. STAHR, President
Indiana University
Bloomington, Indiana
Deputy Chairman

JOHN H. CROCKER, Director
The Citizens National Bank of Decatur
Decatur, Illinois

WILLIAM E. RUTZ, Director
and Member of the Executive Committee
Giddings & Lewis Machine Tool Company
Fond du Lac, Wisconsin

WILLIAM H. DAVIDSON, President
Harley-Davidson Motor Co.
Milwaukee, Wisconsin

HARRY W. SCHALLER, President
The Citizens First National
Bank of Storm Lake
Storm Lake, Iowa

EMERSON G. HIGDON, President
The Maytag Company
Newton, Iowa

JOSEPH O. WAYMIRE
Vice President and Treasurer
Eli Lilly and Company
Indianapolis, Indiana

KENNETH V. ZWIENER
Chairman of the Board
Harris Trust and Savings Bank
Chicago, Illinois

DETROIT BRANCH

GUY S. PEPPIATT, Chairman of the Board
Federal-Mogul Corporation
Detroit, Michigan
Chairman

JOHN H. FRENCH, JR., President
City National Bank of Detroit
Detroit, Michigan

RAYMOND T. PERRING, Chairman of the Board
The Detroit Bank and Trust Company
Detroit, Michigan

MAX P. HEAVENRICH, JR., President
and General Manager
Heavenrich Bros. & Company
Saginaw, Michigan

B. P. SHERWOOD, JR., President
Security First Bank & Trust Co.
Grand Haven, Michigan

JAMES W. MILLER, President
Western Michigan University
Kalamazoo, Michigan

GEORGE L. WHYEL, President
Genesee Merchants Bank & Trust Co.
Flint, Michigan

MEMBER OF FEDERAL ADVISORY COUNCIL

HENRY T. BODMAN, Chairman of the Board
National Bank of Detroit
Detroit, Michigan

OFFICERS

CHARLES J. SCANLON, President

HUGH J. HELMER, First Vice President

ERNEST T. BAUGHMAN, Vice President

CARL E. BIERBAUER, Cashier

JOHN J. ENDRES, General Auditor

ARTHUR M. GUSTAVSON, Vice President

PAUL C. HODGE, Vice President, General Counsel, and Secretary

LAURENCE H. JONES, Vice President

RICHARD A. MOFFATT, Vice President

HAROLD J. NEWMAN, Vice President

LELAND M. ROSS, Vice President

HARRY S. SCHULTZ, Vice President

BRUCE L. SMYTH, Vice President

RUSSEL A. SWANEY, Vice President

JACK P. THOMPSON, Vice President

GEORGE W. CLOOS, Senior Economist

LE ROY A. DAVIS, Assistant Vice President

FRED A. DONS, Assistant General Auditor

DANIEL M. DOYLE, Assistant Vice President

ELBERT O. FULTS, Assistant Vice President

VICTOR A. HANSEN, Assistant Vice President

EDWARD A. HEATH, Assistant Vice President and Assistant Secretary

WILLIAM O. HUME, Assistant Vice President

GEORGE G. KAUFMAN, Senior Economist

WARD J. LARSON, Assistant General Counsel and Assistant Secretary

JAMES R. MORRISON, Chief Examiner

MRS. DOROTHY M. NICHOLS, Senior Economist

KARL A. SCHELD, Assistant Vice President

ROBERT E. SORG, Assistant Vice President

JOSEPH J. SRP, Assistant Vice President

LYNN A. STILES, Senior Economist

ARNOLD J. ANSCHUTZ, Assistant Cashier

MISS BUDDIE J. BELFORD, Assistant Cashier

HARRIS C. BUELL, JR., Assistant Chief Examiner

JOHN J. CAPOUCH, Assistant Cashier

RUDOLPH W. DYBECK, Assistant Cashier

FRANCIS C. EDLER, Assistant Cashier

WILLIAM J. HOCTER, Administrative Assistant

ERICH K. KROLL, Assistant Cashier

RAYMOND M. SCHEIDER, Assistant Cashier

ADOLPH J. STOJETZ, Assistant Cashier

EUGENE J. WAGNER, Assistant Cashier

CARL W. WEISKOPF, Assistant Chief Examiner

CARL C. WELKE, Assistant Cashier

ALLEN G. WOLKEY, Assistant Cashier

DETROIT BRANCH

RUSSEL A. SWANEY, Vice President

GORDON W. LAMPHERE, Assistant Vice President and Assistant General Counsel

WILLIAM C. CONRAD, Assistant Cashier

LOUIS J. PUROL, Assistant Cashier

RAYMOND A. REAME, Assistant Cashier

RONALD L. ZILE, Assistant Cashier

STATEMENT OF CONDITION

Assets	December 31, 1967	December 31, 1966
Gold certificate account	$ 1,678,565,203	$ 1,826,731,583
Redemption fund for Federal Reserve notes	328,249,237	331,433,927
Total gold certificate reserves	$ 2,006,814,440	$ 2,158,165,510
Federal Reserve notes of other banks	53,537,000	86,035,000
Other cash	66,709,213	45,994,210
Discounts and advances:		
Secured by U. S. government securities	$ 8,823,000	$ 19,660,000
Other	—	—
Total discounts and advances	$ 8,823,000	$ 19,660,000
U. S. government securities	7,817,282,000	7,322,144,000
Total loans and securities	$ 7,826,105,000	$ 7,341,804,000
Cash items in process of collection	1,899,444,661	1,742,169,962
Bank premises	18,401,695	19,584,651
Other assets	280,932,545	179,549,484
Total assets	$12,151,944,554	$11,573,302,817
Liabilities		
Federal Reserve notes	$ 7,408,002,403	$ 7,293,072,292
Deposits:		
Member bank reserves	$ 2,918,929,190	$ 2,753,909,091
U. S. Treasurer—general account	107,514,286	521,263
Foreign	20,300,000	22,880,000
Other	30,647,697	28,659,766
Total deposits	$ 3,077,391,173	$ 2,805,970,120
Deferred availability cash items	1,445,556,417	1,270,135,969
Other liabilities	46,274,961	38,890,236
Total liabilities	$11,977,224,954	$11,408,068,617
Capital accounts		
Capital paid in	87,359,800	82,617,100
Surplus	87,359,800	82,617,100
Total liabilities and capital accounts	$12,151,944,554	$11,573,302,817
Contingent liability on acceptances purchased for foreign correspondents	$ 22,692,500	$ 27,427,400
Ratio of gold certificate reserves to Federal Reserve note liabilities	27.1%	29.6%

STATEMENT OF EARNINGS AND EXPENSES

	1967	1966
Current earnings:		
Discounts and advances	$ 2,260,393	$ 6,050,335
U. S. government securities	356,248,931	309,998,076
Foreign currencies	3,659,496	3,143,519
All other	89,112	108,538
Total current earnings	$362,257,932	$319,300,468
Current expenses:		
Operating expenses	$ 31,203,311	$ 29,070,302
Federal Reserve currency	3,267,777	4,078,113
Assessment for expenses of Board of Governors	1,562,600	1,292,300
Total	$ 36,033,688	$ 34,440,715
Less reimbursement for certain fiscal agency and other expenses	4,003,942	3,805,131
Current net expenses	$ 32,029,746	$ 30,635,584
Current net earnings	$330,228,186	$288,664,884
Additions to current net earnings:		
Profit on sales of U. S. government securities (net)	$ 126,148	$ —
All other	243,498	267,229
Total additions	$ 369,646	$ 267,229
Deductions from current net earnings:		
Loss on sales of U. S. government securities (net)	$ —	$ 414,108
All other	2,896	1,229
Total deductions	$ 2,896	$ 415,337
Net deductions from (—) or additions to current net earnings	$ 366,750	$ —148,108
Net earnings before payments to U. S. Treasury	$330,594,936	$288,516,776
Dividends paid	5,104,198	4,855,838
Payments to U. S. Treasury (interest on Federal Reserve notes)	320,748,038	279,707,238
Transferred to surplus	$ 4,742,700	$ 3,953,700
Surplus account		
Surplus, January 1	$ 82,617,100	$ 78,663,400
Transferred to surplus—as above	4,742,700	3,953,700
Surplus, December 31	$ 87,359,800	$ 82,617,100

OPERATIONS

	Value		Number of items	
	1967	1966	1967	1966
	(millions)		(thousands)	
Clearing and collection				
Commercial bank checks	$ 309,890	$308,990	863,177	810,381
Government checks*	21,888	19,407	96,489	94,184
Other items	729	682	1,841	1,800
Currency and coin				
Currency received and counted	$ 4,565	$ 4,862	670,337	759,396
Coin received and counted	142	98	1,243,796	913,256
Coin wrapped	—	30	—	255,876
Unfit currency withdrawn from circulation	1,271	1,219	279,131	275,980
Safekeeping of securities†				
Securities received	$ 10,541	$ 14,739	370	364
Securities released	9,357	15,096	300	365
Coupons detached	290	271	3,090	3,072
In safekeeping on December 31	9,304	8,120	1,595	1,525
Discount and credit				
Total loans made during the year	$ 6,583	$ 15,908		
Daily average outstanding	51	132		
Number of banks accommodated			(198)††	(268)††
Investment				
Purchases and sales of securities for member banks	$ 1,551	$ 1,680	14	18
Transfer of funds				
Funds transferred	$1,077,563	$889,847	824	751
Services to the U. S. Treasury				
Marketable securities				
Issued	$ 13,434	$ 13,929	393	433
Serviced:				
Securities received	14,945	17,297	232	242
Securities delivered	20,677	22,263	634	754
Redeemed	18,517	18,952	866	805
Savings bonds				
Issued	1,313	1,628	26,756	25,551
Serviced:				
Bonds received for reissue	161	150	730	702
Bonds delivered on reissue	161	150	827	790
Bonds delivered on replacement	7	6	75	68
Redeemed	1,120	1,182	17,689	17,319
Federal tax receipts processed	14,833	10,891	2,580	2,132

*Includes postal money orders. †Including collateral custodies. ††Actual number.

APPOINTMENTS, ELECTIONS, RESIGNATIONS, AND RETIREMENTS

The following appointments and elections were announced in 1967.

Federal Advisory Council

David M. Kennedy, Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, was named Member of the Federal Advisory Council from the Seventh Federal Reserve District for 1968.

Directors

Max P. Heavenrich, Jr., President and General Manager, Heavenrich Bros. and Company, Saginaw, Michigan, was designated Chairman of the Board of the Detroit Branch for 1968.

Melvin C. Lockard, President, First National Bank, Mattoon, Illinois, was elected Director for a three-year term beginning January 1, 1968. Mr. Lockard succeeds John H. Crocker, Retired Chairman of the Board, The Citizens National Bank of Decatur, Illinois.

Franklin J. Lunding, Chairman of the Finance Committee, Jewel Companies, Inc., Chicago, Illinois, was reappointed Director for a three-year term beginning January 1, 1968, and redesignated Chairman of the Board and Federal Reserve Agent for 1968.

Howard M. Packard, Chairman of the Finance Committee, S. C. Johnson & Son, Inc., Racine, Wisconsin, was elected Director for a three-year term beginning January 1, 1968. Mr. Packard succeeds William E. Rutz, Director and Member of the Executive Committee, Giddings & Lewis Machine Tool Company, Fond du Lac, Wisconsin.

Raymond T. Perring, Chairman of the Board, The Detroit Bank and Trust Company, Detroit, Michigan, was reappointed Director of the Detroit Branch for a three-year term beginning January 1, 1968.

L. William Seidman, General Partner, Seidman and Seidman, C.P.A., Grand Rapids, Michigan, was appointed Director of the Detroit Branch for a three-year term beginning January 1, 1968. Mr. Seidman succeeds James W. Miller, President, Western Michigan University, Kalamazoo, Michigan.

Elvis J. Stahr, President, Indiana University, Bloomington, Indiana, was redesignated Deputy Chairman of the Board for 1968.

Officers

Daniel M. Doyle, Assistant Vice President, was promoted to Vice President and Raymond M. Scheider, Assistant Cashier, was promoted to Assistant Vice President.

Mrs. Dorothy M. Nichols and George G. Kaufman, Senior Economists, were elected officers of the bank.

Miss Buddie L. Belford, Eugene J. Wagner, Carl C. Welke, and Allen G. Wolkey were elected Assistant Cashiers at the Head Office.

William C. Conrad and Raymond A. Reame were elected Assistant Cashiers at the Detroit Branch.

William J. Hocter was elected Administrative Assistant on Special Assignments.

Charles G. Wright, Assistant Vice President, died on July 22 after 20 years of service at the bank.

Le Roy W. Dawson, Assistant Vice President, retired on October 1 after 47 years of service at the bank.

W. George Rickel, Assistant Cashier, retired on August 1 after 24 years of service at the Detroit Branch.

Paul F. Carey, Assistant Cashier, resigned from the Detroit Branch.

Retirements

Twelve employees retired from the Head Office or Detroit Branch after more than 25 years of service.

Herbert Allen	Alice C. Preinitz
Anna Bzdelik	Ralph R. Ranney
Emile G. Donovan	Fred G. Schneider
Walter J. Hellebrand	Fred J. Sonnleitner
Edward A. Koeller	Agnes L. Styles
William F. Latourette	Alwin K. Zink

Ten employees retired after more than 40 years of service.

Le Roy W. Dawson	Jens Jagtoyen
Jessie Dodge	Evelyn A. Johnson
Clyde A. Duhart	Lester R. Olds
Margaret A. Gallagher	George F. Venecek
Alexander B. Gibson	Francis Vitha

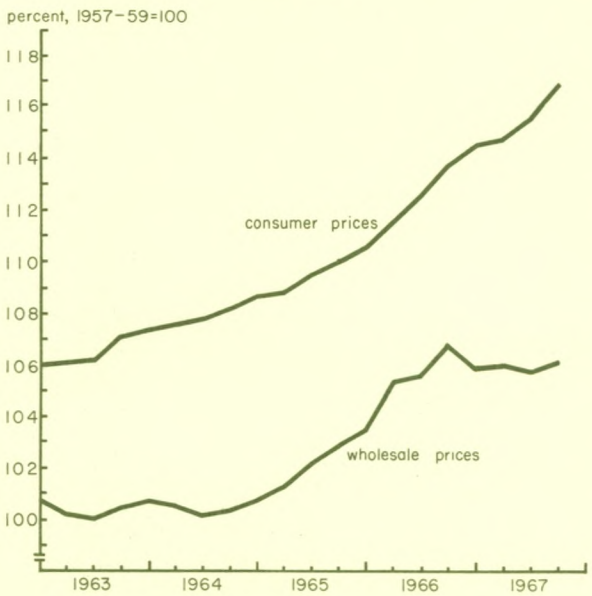
These 22 employees represent more than 810 years of service.

ECONOMIC DEVELOPMENTS IN 1967

Business activity in the Seventh Federal Reserve District and the nation increased again in 1967 — for the seventh straight year. But the increase was uneven, with some key industries of the district — including steel, motor vehicles, and machinery and equipment — operating below levels for 1966 and well below their capacities. Inventory adjustments, strikes, and reduced demand all played parts in slowing the advance.

As reduced business demand for inventories became evident early in the year, monetary policy became expansionary. This, with a large federal deficit, helped prevent substantial weakening in the private economy. Growth in final demand remained strong even though net inventory investment slowed drastically — from an annual rate of $19 billion in the fourth quarter of 1966 to near-zero in the second quarter of 1967. Purchases of goods and services for other than inventory rose faster in the first half of 1967 than in the final months of 1966. Residential construction, which declined steadily throughout most of 1966, rose in 1967 and by year-end had returned to the high plateau of 1964-65.

While consumer prices rose rapidly in 1967, average wholesale prices were relatively stable



Forecasts made in late 1966 had typically run to extremes: either uninterrupted rapid growth or a recession accompanied by a sharp rise in unemployment. The final outcome was different from either view.

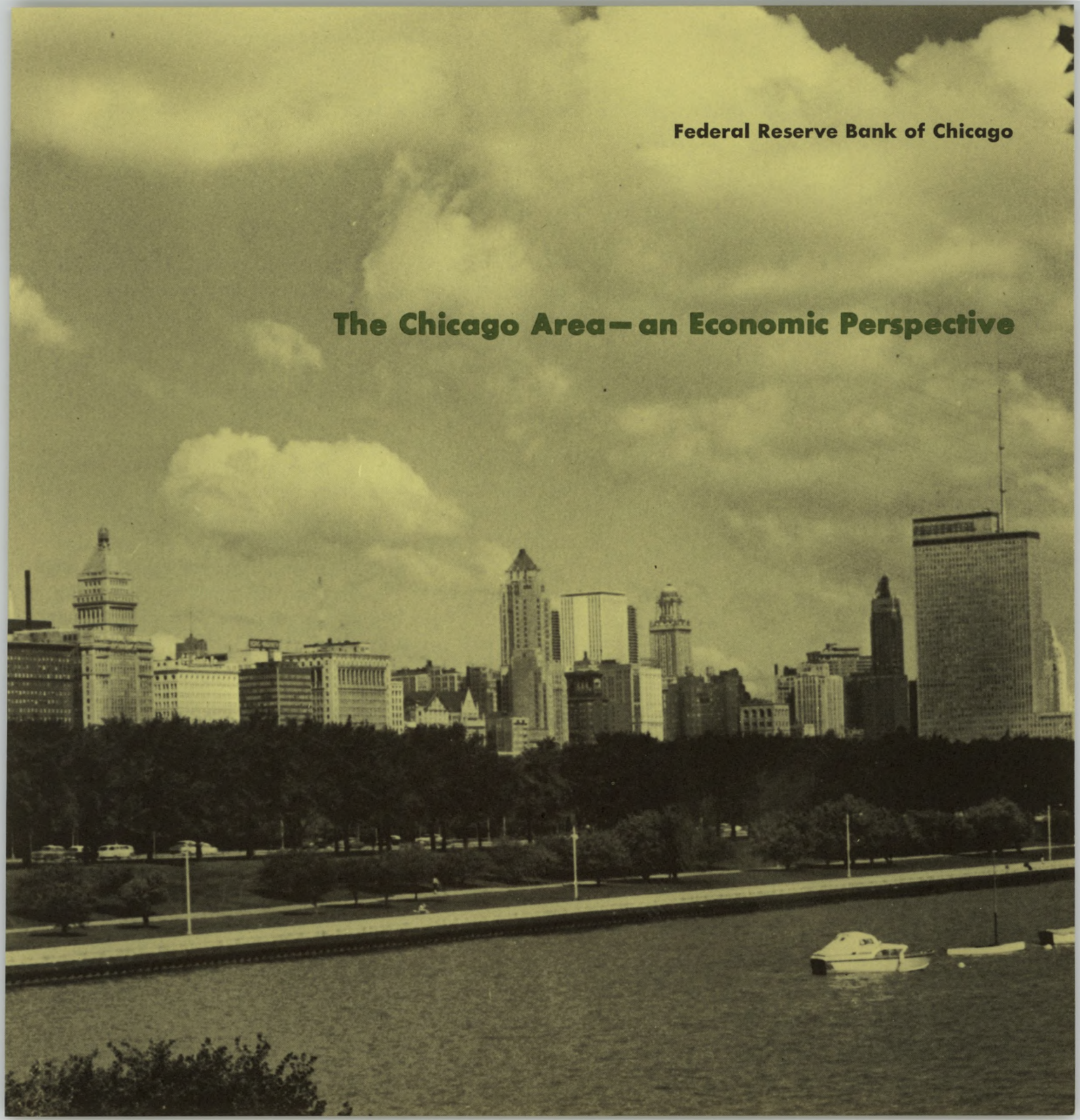
Industrial production, which had continued to rise in 1966 but at a decreasing rate, declined more than 2 percent in the first six months of 1967. Employment also dipped briefly in the spring. Principally reflecting these developments, speculation grew that the economy was entering the opening stages of a general recession.

Starting in the summer, all major indicators of activity showed a resumed upward course, and the rise in income suggested the new uptrend in demand would continue through the year. But in the fall, strikes in major industries halted and temporarily reversed the rise in manufacturing output. Work stoppages in automobiles, steel hauling, and construction and farm machinery were particularly significant in the Midwest. Settlements of some of the most important disputes in October opened the way for resumption of the advance in output. But labor peace was bought at a high cost. Increases in hourly compensation of 5 and 6 percent a year were well in excess of the most optimistic estimates of gains in output per manhour.

Price increases for a wide variety of services, materials, components, and finished goods — including medical care, steel, electrical apparatus, and motor vehicles — accelerated in the second half. Through much of the year, the impact of these increases on the general price level was partly offset by declines for farm products and

Federal Reserve Bank of Chicago

The Chicago Area—an Economic Perspective



The Chicago Area – An Economic Perspective

Urban America

Only one person in 20 lived in a city when the first U. S. census was taken in 1790. The great preponderance of the population was rural, living on farms or in small towns. Although the ratio of city dwellers rose steadily, it was still only one in five at the time of the Civil War. Not until World War I did the nation's cities reach equality with its rural areas.

Two-thirds of the people now live in metropolitan areas, and the proportion continues to rise. As a result, the cities loom ever larger in the nation's economic, political, and social life. The clustering of great masses of people makes possible the cooperation of many hands and brains in work for material and cultural progress. But this very massing makes some types of cooperation more difficult. Congestion, crime, pollution, and social strife—increasingly front-page news—are largely problems of the cities. The need to coordinate vast federal programs to ameliorate life in the cities, particularly in their older sections, led in 1965 to the establishment of the Department of Housing and Urban Development.

This study concentrates on the Chicago area, one of the largest and most representative urban areas in the country. The Chicago area, showing renewed vigor in recent years, is the economic capital of the Midwest. Its 7.5 million people are more than the entire nation contained when Fort Dearborn was destroyed at the mouth of the Chicago River in 1812. The Chicago area's growth, its industries, its assets and liabilities epitomize the story of the development of urban America.

The Chicago Area

The vitality and prospects of the Chicago area were called into question in the late 1950s and early 1960s. The resurgence of the area's employment and income in recent years shows, however, that the apparent stagnation of Chicago mainly reflected sluggish growth of the U. S. economy overall. The basic economic strength of established areas with favorable locations and resources and large investments of personal, business, and social capital has been demonstrated anew. This article undertakes to place in perspective the principal economic features of the Chicago area, past and present, in comparison with other large areas.

The face of the Chicago area has changed extensively in recent years, both by expansion and development of new areas and by renovation of old ones. Construction of striking new buildings and expressways, improvements of harbor and airport facilities, developments in sanitation, water supply, electric and gas utilities, and modernization of police and fire protection—all these attest to the momentum of the area's growth. Similar developments have, of course, taken place elsewhere, but in few other areas are the changes as marked or pervasive.

On the debit side, there have been growing problems in providing suitable educational opportunities for all, sporadic outbreaks of racial conflict, air and water pollution, congestion, and lack of coordination of the hundreds of governments of varied and often conflicting jurisdiction that serve the area. Such problems, like the tokens of progress, are common to most large metropolitan areas.

Capital of the heartland

Chicago was only a scattering of primitive buildings at the mouth of the Chicago River when Illinois was admitted to the Union in 1818. Now, as the state celebrates its sesquicentennial, the Chicago metropolitan area is the nation's third largest and, because of its central location, varied mix of industries, and blend of ethnic groups, probably the nation's most representative metropolitan area.

Pioneer settlements in the southern part of Illinois, while small, were in many cases much larger than Chicago in 1818. Chicago was not incorporated as a village until 1833. Even then, it lagged behind such towns as Springfield, Vandalia, and Shawneetown.

Chicago began a phenomenal growth in the 1840s, however, that brought its population to a million by 1890 and made it the leading urban center of the midcontinent.

Some boosters at the time thought the city would eventually overtake New York—a possibility that seems increasingly remote now as the eastern seaboard coalesces into a megalopolis from Boston to Washington. Moreover, the Chicago area has been surpassed in population by the Los Angeles area.

But Chicago's primacy in the central United States remains unchallenged. The vigor of the city and its surrounding area suggests an indefinite continuation of Chicago's leadership in the nation's heartland.

The metropolitan area

The study of an urban area requires a definition of terms. Municipal boundaries have little significant influence on the movement of goods and people within an urban complex. Meaningful analyses of trends for a metropolitan area, which include comparisons with trends for other areas, require consideration of areas much larger than the cities themselves.

The Office of Statistical Standards in the Bureau of the Budget has designated more than 200 SMSAs (standard metropolitan statistical areas), each including a central city of 50,000 population or more, the county in which the central city is located, and any adjacent counties that look to the central city as a focal point of economic and social activity.

The term *city* (or the name of a particular city) is used here to mean a central city. The term *area,* often preceded by the name of a central city, refers to an entire metropolitan area.

The Chicago SMSA consists of six counties in Illinois: Cook, Du Page, Kane, Lake, McHenry, and Will. These counties are combined with the Gary-Hammond-East Chicago

SMSA (which consists of Lake and Porter counties in Indiana) to make up the Chicago-Northwestern Indiana standard consolidated area, referred to here as the Chicago area, or simply *the area.*

Throughout this article, the characteristics and trends of the Chicago area are compared with those of the nation's other four largest metropolitan areas:

- The New York-Northeastern New Jersey standard consolidated area—New York City plus 12 counties (16 million people)
- The Los Angeles area—a combination of four counties making up the SMSAs of Los Angeles, Anaheim-Santa Ana-Garden Grove, and San Bernadino-Riverside-Ontario (9 million people)
- The Philadelphia SMSA—eight counties (4.7 million people)
- The Detroit SMSA—Wayne, Macomb, and Oakland counties (4 million people)

The Chicago area, with a current population of more than 7.5 million, ranks behind the New York and Los Angeles areas and ahead of the Philadelphia and Detroit areas.

The Chicago area has been enlarged in recent years by the addition of McHenry County, Illinois, to the west and Porter County, Indiana, to the east. But Chicago influences an area far beyond the eight counties now included in the consolidated area. The new Chrysler Corporation assembly plant at Belvidere, Illinois, 80 miles west of Chicago, and the new Jones and Laughlin steel plant at Hennepin, Illinois, 100 miles to the southwest, were so located because of access to the markets and facilities of the Chicago area.

Some think of the Chicago area as the economic capital of the whole midcontinent from the Appalachians to the Rockies, from Winnipeg to the Gulf of Mexico.

A less expansive approximation of Chicago's hinterland might focus on the Seventh Federal Reserve District, headquartered in Chicago. The district comprises most of Illinois, Indiana, Michigan, and Wisconsin and all of Iowa. These states, with 31 million people—almost a sixth of the nation's population—produce 22 percent of its agricultural and industrial output.

Population Trends

By the turn of the century Chicago was well entrenched as the nation's second largest metropolitan area. With more than 2.1 million people, it was larger than Philadelphia although less than half the size of New York.

The area now comprising metropolitan Los Angeles had less than a quarter-million people. Detroit, like Los Angeles, on the threshold of very rapid expansion had only 430,000. The fourth and fifth ranking cities were Boston and St. Louis, now sixth and tenth, respectively.

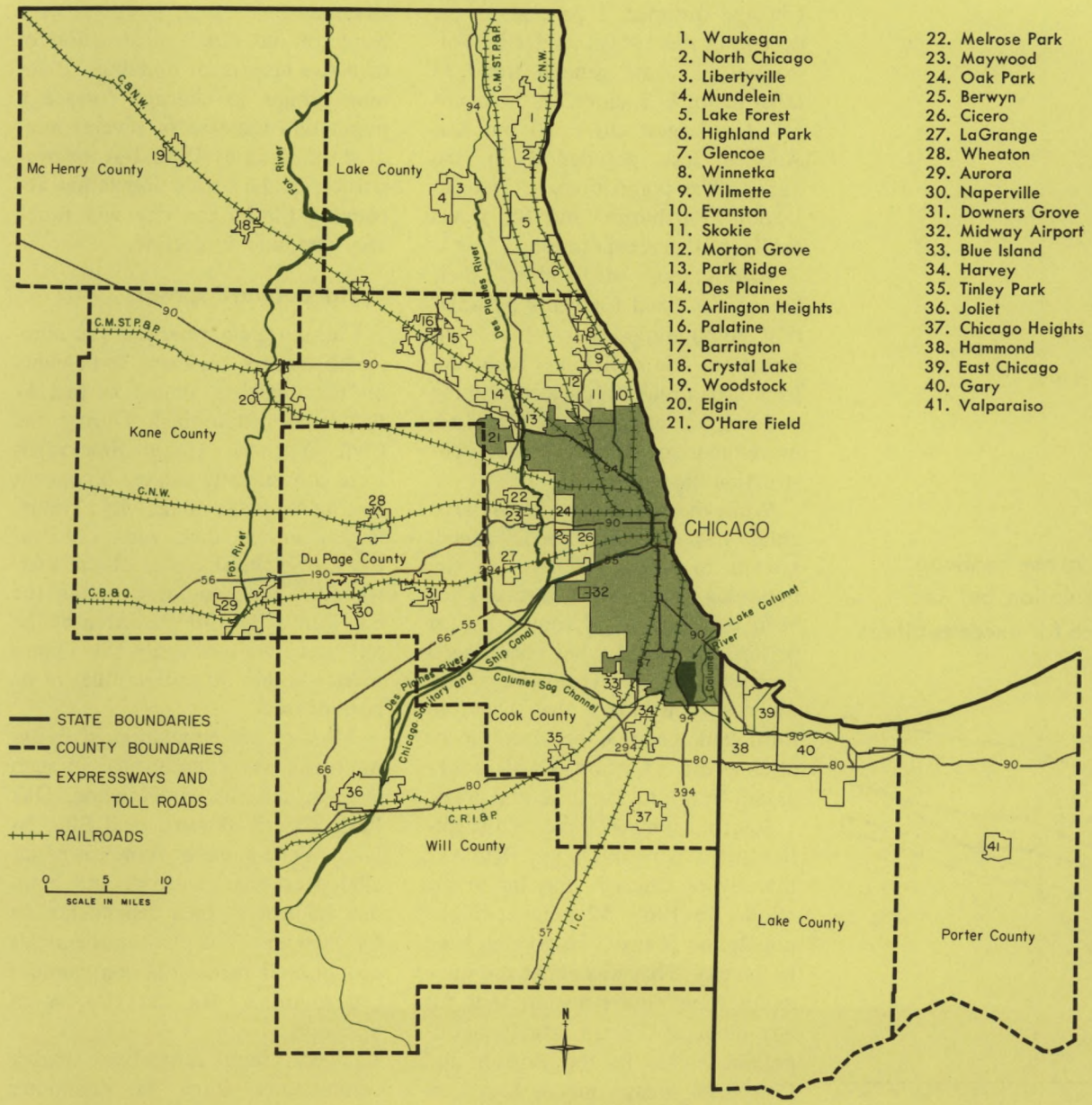
Rapid growth

The population of metropolitan Chicago more than doubled in the next 30 years, reaching 4.7 million by 1930. During that time, the population of the area grew faster than either the nation or all other metropolitan areas taken as a group. Population growth in the area slowed dramatically in the Depression decade, however, as birth rates and family formations dropped sharply, the attractions of the city faded for rural people, and immigration from abroad was lowered by both legislative restrictions and the rise in unemployment. From 1930 to 1940 the population of the Chicago area rose only 3 percent, compared with 7 percent for the nation.

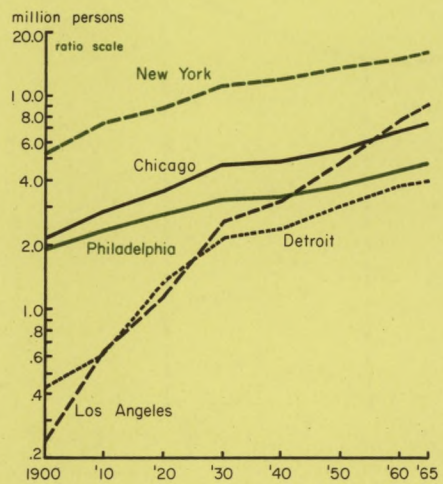
Population growth accelerated with postwar prosperity as rates of family formation and births rose again. The population of the Chicago area has increased more than 50 percent since 1940. Chicago's growth during this time was faster than New York's but less than the rate for all urban areas. It was at about the same pace as for the nation as a whole but far behind the rate for the Los Angeles area, where population has tripled.

Of the population of the current eight-county Chicago area, 79 percent lived in Chicago in 1900. Many of the now populous municipalities surrounding Chicago were only crossroads towns then and were to remain so for years after. Others, of which Gary is the prime example, did not exist at all.

The Chicago area



All major areas continue to gain population but Los Angeles pace far exceeds others



Over the decades, the city has not only accounted for a steadily-shrinking proportion of the population of the area, but its population has actually declined. The population of Chicago dropped 2 percent in the decade of the 1950s, its decline following the same general trend as other major U.S. cities. Of the country's 14 largest cities, all but Los Angeles lost population in the 1950s. The populations of Detroit, Boston, Pittsburgh, and St. Louis declined 10 percent or more.

Within most such cities—their boundaries fixed for years by adjacent communities that refused annexation—demolitions resulting from urban renewal projects and the building of expressways have removed more dwellings than new construction has added.

While the population of most large cities has stabilized or declined, growth in many suburbs (in the hundreds in the case of Chicago) has been explosive. Widespread use of private automobiles has encouraged construction of expressways and other thoroughfares that have, in turn, made possible the development of large tracts for homes widely separated from previously settled areas.

Recent estimates indicate a slightly faster decline in the population of the city of Chicago thus far in the 1960s. In 1960, 52 percent of the population of the Chicago area lived in the city. That was about the same as for New York but more than for any other of the ten largest metropolitan areas. In the Boston and Pittsburgh areas, only a fourth of the population lived in the city. Five years later Chicago accounted for less than 48 percent of the area's population.

The decline in population of the city may be halting, however, as a result of the rapid construction of high-rise apartment buildings. Planning groups in Chicago foresee a population increase of several hundred thousand by 1980, but the proportion of the area's population accounted for by the city will probably continue to decline.

The outward spread

Chicago grew rapidly in the nineteenth century, annexing settlements on the outskirts almost as fast as they were established. During the Civil War the Union Stockyards were conveniently located on vacant land at the edge of the city. Today, largely unused, these yards are near the geographical center of the metropolitan area and well within the city limits. By 1900 the area of the city was already roughly 190 square miles—within 30 square miles of its current area.

Most of the population of outlying areas was concentrated in such close-in suburbs as Evanston, Oak Park, Cicero, Berwyn, and Blue Island. While some of these towns included sizable industrial and commercial centers, their dependence on Chicago and their place in the area's economy as residential communities ("dormitories" for the city) were apparent.

There were numerous smaller communities along the commuter

Chicago's lakefront—its main scenic asset

railroads and several fair-sized "satellite" towns outside Cook County, 30 to 40 miles from downtown Chicago—Joliet, Chicago Heights, Aurora, Elgin, and Waukegan-North Chicago.

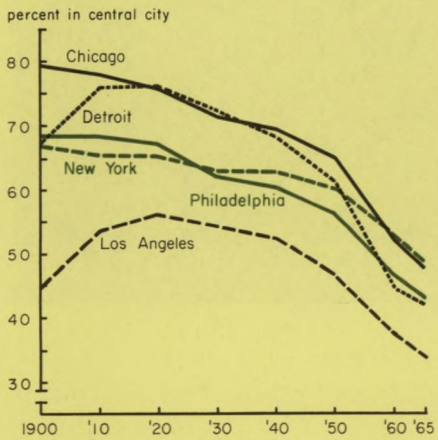
Because of their remoteness from the city, these towns were not drawn fully into the economic orbit of metropolitan Chicago until well into the twentieth century—after the development of rapid transit and the common use of highway transportation. Urban development that was spreading weblike into territory between the rail commuter lines before the war has since blanketed much of the area, reflecting largely the increasing use of motor vehicles.

Decentralization of industry and commerce and their spread into suburbia has created employment at numerous outlying points. The proportion of metropolitan area employment accounted for by the city has declined gradually since early in the century. While commuter trains and networks of expressways and other thoroughfares are channeling larger numbers of people in and out of the city than ever before, growth of travel within the outlying ring of towns has increased even more.

The eight-county Chicago metropolitan area reflects the integration of smaller cities that were once remote outposts. The essential economic coherence of the 100-mile stretch along Lake Michigan from Waukegan on the north to the Indiana Dunes on the east has become increasingly apparent.

The shift in the pattern of development to outlying areas has had profound implications for the structure of local government in Chicago and the Chicago area.

Less than half the residents of largest metropolitan areas now live in central cities



The ethnic mix

The ethnic makeup of major metropolitan areas has changed greatly in the twentieth century, particularly in the past 25 years. More than half the population of the Chicago area was either foreign born or of foreign or mixed parentage in 1940. By 1960 this proportion had dropped to 41 percent and only 11 percent were foreign born.

Of the foreign born, immigrants from Poland have the largest representation, followed by those from Germany, Italy, Russia, Sweden, and Ireland. Earlier in the century, Germans were most numerous of the foreign born. Although many European groups have tried to transplant their cultural heritage to Chicago, all have been assimilated into the economic and social life of the area—though not, of course, without problems at times.

Although restrictions on immigration have eased in recent years, admissions have been limited largely to people equipped by training and supported by friends and relatives willing to help find jobs and aid smooth transitions to new environs.

As a result, the problems of ethnic groups in large cities, have shifted largely to nonwhites. These, principally Negroes, have accounted for a rapidly growing proportion of metropolitan populations, especially in central cities.

Despite some influx from the South during World War I, nonwhites in the Chicago area numbered only about 100,000 as late as 1920. They constituted less than 4 percent of the population of the area and only a little more than that in the city. But the proportion of nonwhites has increased continuously in the last 50 years.

More than a million nonwhites now live in the area and account for about 16 percent of its population. More than 80 percent of them live in the city. The proportion of Negroes in the city increased rapidly as the white population declined.

The highest white population recorded for Chicago was in the Census of 1930. The decline was slight, however, until about 1950. Between 1950 and 1965, the white population of Chicago declined 19 percent, while the nonwhite population increased almost 90 percent.

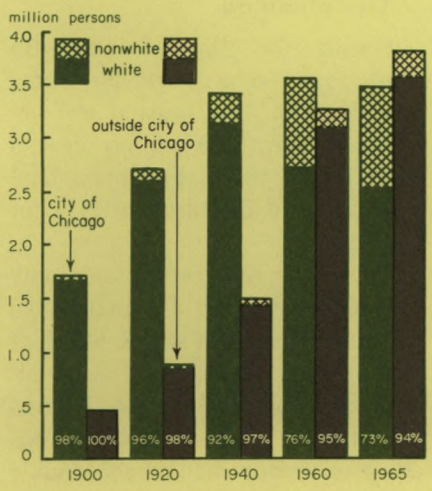
During that time the proportion of nonwhites increased from 14 percent to more than 27 percent. One in every 24 Chicago residents was nonwhite in 1920. By 1940 the proportion was 1 in 12. There is now about 1 nonwhite for every 3.5 whites.

Within the city, Chicago's Negro population is concentrated mostly on the south and west sides. In part, the concentrations reflect the practice of writing "restrictive covenants" into the deeds of residential property, prohibiting the sale or rental of the property to nonwhites. The practice, started in the 1920s, was invalidated by the U.S. Supreme Court in 1948, but its impact is still apparent in the distribution of the Negro population in the area.

Chicago also has a growing number of Puerto Ricans. They face most of the problems of Negroes and also in many cases a language barrier.

Another American group that has come to Chicago in large numbers are whites from depressed regions of Appalachia. As in the case of the Negroes and Puerto Ricans, many of these native-born whites are ill equipped to compete for better paying jobs in large urban areas.

Nonwhites account for rising share of population of both city and suburbs



The City and Its Suburbs

Seen from the air, most of Chicago and many of its suburbs display a gridiron pattern. Major streets are on section lines one mile apart, which follow the original federal land survey of the Northwest Territory. The area within these mile squares is divided, for the most part, into rectangular blocks. Most diagonal streets were originally Indian trails on ridges left by successive advances of the glacier that covered the area in prehistoric times.

The gridiron structure was originally efficient and orderly, though monotonous. It gave rise, however, to a pattern of land use and development inconsistent with modern standards of city planning. To a great extent, the railroads determined not only the pattern of land use within Chicago but also the "fingers" of

urban development radiating from the city and the location of some of the satellite communities in the outer orbit of the metropolitan area.

Railroad trunk lines, largely completed by 1880, conform to the rectangular pattern in parts of the city that had been established before the tracks were laid. Outside this central area, the tracks follow fairly direct routes to their destinations.

Industry developed mainly along the rivers and railroads. Inner and outer railroad belt lines connecting the trunk lines were completed in the 1880s and 1890s. Classification yards were established at junctions of belt and trunk lines to sort and redirect freight traffic. Industrial districts and suburbs tended to develop near these junctions.

Patterns of development

Patterns established by the railroads have undergone substantial modification with the spreading use of motor vehicles and the development of expressways. The expressway and tollway system was constructed largely in the 1950s but is still being extended.

This system, like the railroads, has fingers radiating from the Loop (Lake Shore Drive and the Edens, Kennedy, Eisenhower, Stevenson, and Dan Ryan Expressways), an outer belt (the tollroad), and a planned inner belt (the crosstown expressway).

Certain sizable industrial tracts in Chicago have been abandoned through the years and not redeveloped. This is true of most of the stockyard area, the old lumber district on the south branch of the Chicago River, and certain manufacturing sites in other sections.

The total amount of this acreage available for new industries or other uses may increase in coming years as the railroads dispose of excess trackage and classification yards. Railroad mergers, approved and proposed, may accelerate this process, particularly for land occupied by passenger and freight terminals south of the Loop.

Before construction of the rapid transit system and the widespread adoption of automobiles, employers of large work forces had to locate their businesses close to mass residential areas. Today, some of the older factories and loft buildings in the central part of the city are wholly or partially vacant, and they can be expected to disappear as have many before now. Tax liabilities of underutilized buildings strongly encourage demolition.

Through the years mechanization has drastically reduced the labor requirements of many manufacturing industries. Plants with large labor requirements often can maintain an adequate work force in the suburbs. Businesses, old and new, are drawn to open areas where efficient one-story plants can be built with ample parking and access to rail, road, and air transportation.

While patterns of manufacturing activities have shifted outward from the center of the city, a similar movement has occurred in retailing. State Street, in the heart of the Loop, was already established as the leading shopping district in the 1860s. Its share of the area's retail trade has declined steadily since the mid-1940s, however. Although most of the original stores continue as vital enterprises, many of them have expanded into the suburbs, establishing branches there.

Numerous other shopping areas developed at intersections of major streets, usually streetcar transfer points. Most of the older neighborhood shopping areas have since declined as population shifted and automobiles became the principal mode of personal transportation. Many of these areas now have vacant shops. Renewal projects have been started in some of these areas, and additional projects are planned.

Postwar construction of retail stores has been largely in coordinated shopping centers with ample parking and ready access from major thoroughfares on the outskirts of the urban area.

City planning

During the time of Chicago's most rapid growth—which lasted until the late 1920s—land use developed with little or no central planning. In 1909, the Commercial Club unveiled its Burnham Plan for Chicago.

The country's first major city planning study, the Burnham Plan was metropolitan in scope. Much of what it proposed has since been realized: development of the 20-mile lakefront for public purposes, widening of section line streets, double

State Street
still the major shopping center

decking of Wacker Drive, the establishment of the forest preserve system, and development of Michigan Avenue north of the river. The plan had little to say about residential development, however, and it ignored the growing impact of motor vehicles.

The city had no zoning ordinance until 1923. The comprehensive zoning code adopted that year has had a significant influence on the city's development ever since.

The Burnham Plan led to creation of the Chicago Plan Commission, which was succeeded by the city's Department of Development and Planning. In late 1966, that department issued *The Comprehensive Plan of Chicago*. This plan sets forth broad principles for the development of streets, parks, and residential, industrial, and commercial areas.

Toward urban renewal

The nation became increasingly concerned about the deterioration of older, densely populated sections of cities in the 1930s. Slum clearance was pushed with urgency, but often without any clear provision for the people displaced by razings. Some progress was made, however, and low-cost government-financed rental units were built in the 1930s and early 1940s. But World War II called a halt.

The Master Plan of Residential Land Use in Chicago, published in 1943, designated 23 square miles of the city as having structures so dilapidated as to suggest clearance and redevelopment. Other parts of Chicago were designated "conservation areas," judged susceptible of rehabilitation.

The Chicago Land Clearance Commission was established in 1947 to acquire through eminent domain properties that were hopelessly deteriorated and clear them for sale of the land to private and public developers at less than the cost of acquisition, provided the proposed use of the land was consistent with planning goals.

With recognition that the most economical and least disruptive way to fight deterioration often is to rehabilitate structures rather than tear them down, emphasis shifted in the 1950s to urban renewal.

Renewal and redevelopment programs have been aided extensively by the use of federal funds. About five square miles of the city have been cleared and redeveloped—the land used for a variety of purposes including public and privately owned apartment buildings, medical centers, and university campuses.

Despite large scale accomplishments, the job of urban rebuilding confronting the Chicago area today is hardly less massive today than before slum clearance and renewal began. The main problem is continued physical deterioration of older residential areas crowded with more residents than the structures were originally designed to accommodate.

The downtown area

The Chicago area is said to have an "anchored core"—meaning that the central business district has not drifted away from its original location and that competing districts have not developed as focal points, as they have in New York and Los Angeles. The radiating railroad and rapid transit lines together with the fairly confined Loop area bounded on three sides by the river and the lake have firmly fixed the location of the downtown area.

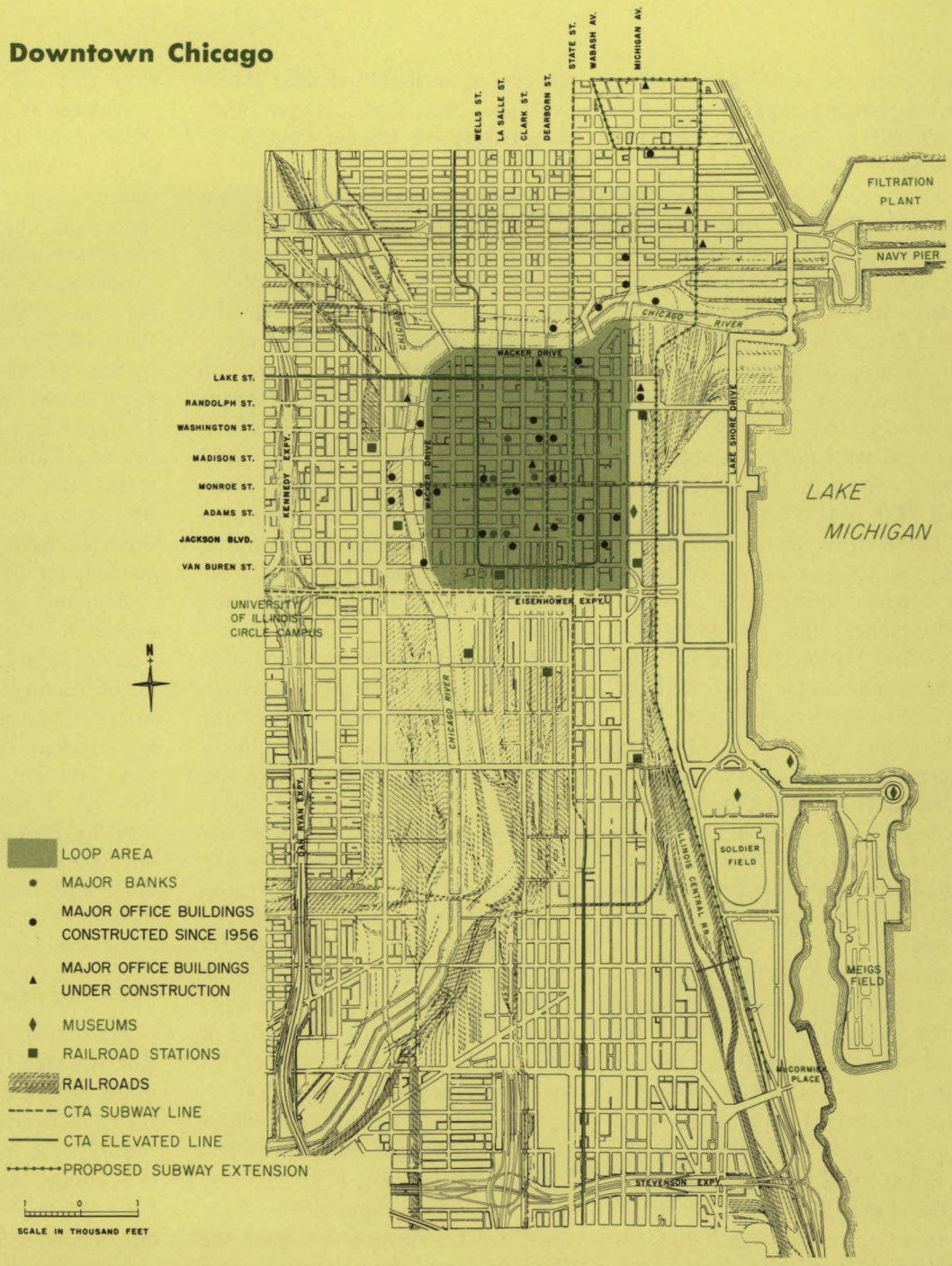
Unlike many other areas, Chicago's downtown has suffered little from disuse. Probably as many people enter the Loop every work day as ever before—almost a million. Downtown Chicago has shown vibrant signs of life in the last decade.

In the 1880s and 1890s, the "Chicago school" of architecture graced the downtown area with large buildings featuring the first use of structural steel and expansive window areas.

The 1920s brought a wave of skyscrapers that produced such buildings as the Board of Trade, the Civic Opera House (now the Kemper Insurance Building), the Merchandise Mart, and the Field Building. The last of these, completed in 1934, resembled Rockefeller Center in New York, in that it was partially a private attempt to counter the Depression through maintenance of investment despite clouded prospects for profit. After 1934 came a long drought.

No major office building was built in the Loop from 1934 until 1957, when the Prudential Building was completed. Since then, dozens of large buildings have gone up, and

Downtown Chicago



Note: Adapted from maps prepared by the Department of Development and Planning of the City of Chicago.

many more are under construction or in the planning stage.

Included in the recent building wave have been two large federal buildings, the Civic Center, the Brunswick Building, the Hartford Insurance Building, the Inland Steel Building, the Equitable Building, the United Insurance Building, the United States Gypsum Building, the twin Marina Towers, and Lake Point Towers. All of these are spectacular structures.

The tallest buildings constructed in the Loop in the 1920s had been about 600 feet. The Civic Center, the tallest structure completed recently, is 630 feet. Two buildings now under construction will be much higher—the 850-foot, 60-story First National Bank Building in the center of the Loop and the 1,100-foot, 100-story John Hancock Center on North Michigan Avenue.

Despite the building boom, little office space is vacant in the Loop. Owners of older buildings have had to modernize their structures extensively, however, to attract and hold tenants.

The expansion of the downtown area has leaped the river to the west as the Gateway Center buildings joined the Riverside Plaza on air rights over the Union Station tracks. There are extensive plans for redevelopment of the nearby West Madison Street "skid row." To the north of the Loop, important developments are under way on both sides of Michigan Boulevard. To the east, a complex of huge structures is planned near the Prudential Building and the Outer Drive East Apartments on Illinois Central air rights.

Since the early 1960s, several thousand apartments have been added within 1.5 miles of the center of the Loop. As a result, the downtown retail and financial district spreading northward along upper Michigan Avenue has merged into the strip of high-rise apartments started along the northside lakefront in the 1920s. Close-in, mixed land use is becoming increasingly common, with some structures featuring residential and commercial quarters. The 100-story John Hancock Center will be Chicago's most dramatic example.

Redevelopment of the Loop area has been financed largely by private capital. Some distance south of the Loop and separated from it by a jumble of little used railroad stations, tracks, and rundown warehouses—an area ripe for redevelopment—is a massive public housing development that stretches four miles along the Dan Ryan Expressway.

To the west, urban redevelopment has provided land for the Chicago Medical Center and the Chicago Circle Campus of the University of Illinois. The campus is planned for an eventual enrollment of 20,000.

Expansion of the central business district has brought plans for a $300 million improvement of the subway system to permit replacement of the unsightly L-structure that gave the Loop its name, and to provide easier access to the rapid transit system from areas surrounding the Loop.

Chicago has long been a favorite location for conventions and trade shows, chiefly because its central location, ample hotel accommodations, and other facilities make it an ideal "convention town."

Several halls are available, including the Amphitheatre and Navy Pier. McCormick Place, destroyed by fire in January 1967, was built in 1961 especially for such meetings. That building had 480,000 square feet of exhibition space and a 5,000-seat theater. A new building of 600,000 square feet is planned for the same lakefront site. It is expected to be ready for use in 1970.

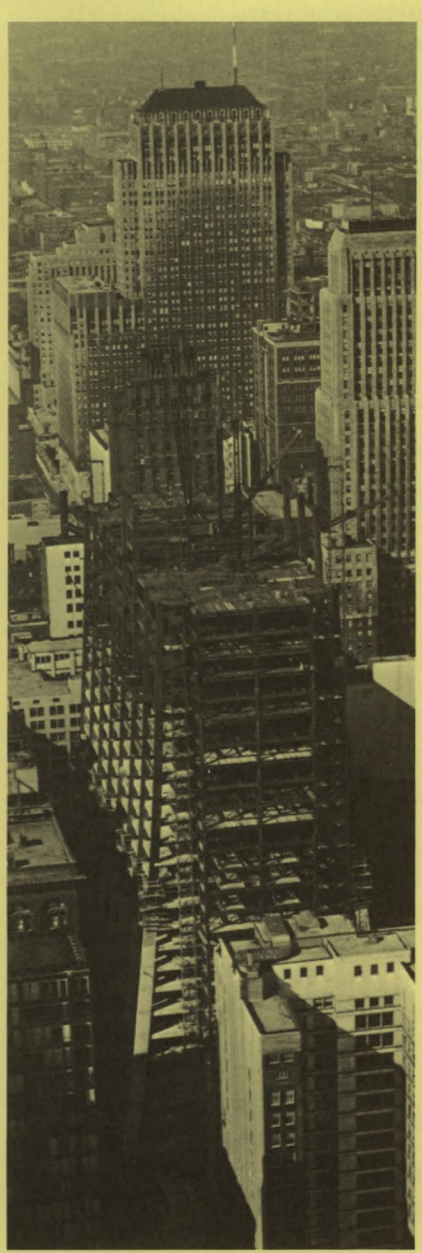
Although complaints of congestion in the Loop are heard as frequently as ever, traffic snarls early in the century may have been even worse. The last of the traffic-blocking streetcars was retired a decade ago. Substantial off-street parking has been provided in the downtown area by high-rise parking garages, huge parking facilities under Grant Park, and parking areas under new buildings and on land cleared of obsolete structures.

Strong demand for housing

Residential construction in the Chicago area lagged national trends in the early postwar period. A number of factors accounted for this but possibly the most important were the almost exclusive reliance on "conventional" financing and a scarcity of builders of large projects.

Nevertheless, an early start was made in the development of an en-

Under construction
First National Bank Building
and John Hancock Center



tirely new suburb, Park Forest—now a community of more than 30,000—30 miles to the south of Chicago's Loop.

Homebuilding, especially of single-family units, picked up sharply in the 1950s. Tracts that had been subdivided in the 1920s but abandoned in the 1930s were built up rapidly. In addition, large-scale projects in newly plotted and improved acreage, financed mainly by savings and loan associations and insurance companies, became increasingly important.

Many established villages grew rapidly, and some newly incorporated municipalities soon became important communities. Elk Grove Village, west of O'Hare Airport, with a current population of more than 15,000 is an outstanding example of such developments.

To a great extent, the homebuilding boom of the mid-1950s was concentrated in areas north and west of the city.

As housing expanded in the suburbs, outward growth reached increasing distances from the city's core. But distance was partly offset, in terms of travel time, by the extension of expressways into the suburban ring and improvements in commuter train services.

Growth of many area suburbs has also been sustained by the high quality of commuter services offered by railroads serving much of the outlying area. Modern air-conditioned equipment, frequent scheduling, ready availability of parking at stations, and shuttle bus services to and from downtown depots have all improved suburban service.

In recent years provision of new housing in high-quality, close-in elevator apartments has given large numbers of executives and professional people easy access to the central business district. One result has been a partial reversal of the "flight to the suburbs," at least for some upper-income couples.

Beginning in the late 1950s, emphasis shifted to apartments, which have accounted for about half of all new construction in recent years. Permits for new homes in the Chicago area declined about 13 percent in 1966 while permits for apartments rose 4 percent. In 1967 permits for all types of residential units were up about a fourth from the previous year.

Nevertheless, the Chicago area has a housing shortage. Rents and prices of homes are rising faster than at any time in the last decade. Increases in building activity have recently been hampered by an inadequate supply of skilled workers in the building trades.

The Industrial Base

Approximately 3.4 million people were employed in the Chicago metropolitan area in 1967, including more than 3.1 million wage and salary workers and almost 300,000 self-employed people.

After a period of near stability, employment growth in the area accelerated in the mid-1960s. Employment rose almost 10 percent from 1964 to 1966, slightly more than in the nation and appreciably more than in most other large metropolitan areas. Manufacturing employment rose more than 11 percent, also more than for the nation.

Recent employment growth

Until the 1964-66 employment surge, there had been concern that the Chicago area might no longer be in the mainstream of the nation's economic advance. Although the area's postwar growth has been far short of the gains scored by newer areas in the Southwest and on the West Coast, its place as a vigorous, if relatively mature, area appears secure.

Doubts about the future of employment opportunities in the Chicago area seemed justified by developments in the late 1950s and early 1960s. In the recession year 1958, employment declined sharply in the nation and in all major metropolitan areas. In the following year, U. S. total employment passed the 1957 peak, but in most large centers it did not reach new peaks until later—1963 in the Chicago area.

Manufacturing employment in the nation and in most large metropolitan areas had begun to sag in 1957. The 1956 record was not surpassed nationally until 1964. For the Chicago area, the 1956 level was not passed until ten years later—1966. Output of manufactured goods increased substantially during the intervening years, but mechanization and auto-

mation held down labor requirements. There was also a net exodus of some manufacturing industries with large labor requirements, such as meat-packing and wearing apparel. The same conditions have been seen in New York, where manufacturing employment still remains below the level of 1956-57, despite gains in the mid-1960s.

The greatest increases in employment in the last decade—in the Chicago area and elsewhere—have been in trade, finance, government, and services. Except in such rapidly growing areas as Los Angeles, on the other hand, the transportation and public utility industries group employs fewer workers today than ten years ago.

The year-to-year rise in employment was moderated in 1967, mainly by the inventory adjustment in many industries in the first half of the year, but partly because relatively full employment had been reached in 1965-66. Tentative estimates indicate a 3.5-percent rise over 1966 for the United States and a 2.3-percent rise for the Chicago area. The main difference was in manufacturing employment, which averaged higher in the nation in 1967 but merely equaled the previous year's level here. Relatively less defense work, greater emphasis on producers' equipment, and retardation resulting from strikes were major causes of the difference.

Low unemployment

The Chicago area has had a lower rate of unemployment in recent years than any other major area. It has been classified by the Department of Labor as a "low unemployment" labor market since early 1966—an indication that its unemployment has been between 1.5 and 3 percent of the labor force. Even 3 percent is often considered minimal and presumed to reflect largely people in the process of changing jobs.

By contrast, labor markets in most other large centers, including the other four largest metropolitan areas, have been classified as having "moderate unemployment"—between 3 and 6 percent of the labor force.

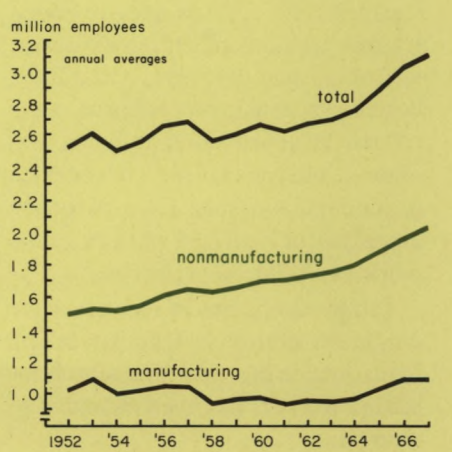
Local estimates indicate that 2.5 percent of the labor force in the Chicago area was unemployed in November 1967, compared with 3.7 percent for the nation. This is about the same as the area's average for the past two years.

A recent survey of the 15 largest metropolitan areas shows wide variations in unemployment rates in 1967 but confirms the view that the Chicago area had the lowest rate of any of the five largest areas. At 5.5 percent, unemployment in the Los Angeles area was by far the highest of any area surveyed.

Unemployment in the Chicago area was estimated at 4.3 percent in the city and 2 percent in the suburbs. Within the city, the rate was 2.8 percent for whites and 8.5 percent for nonwhites. Most of the area's hard-core unemployed are nonwhites in the city.

Because of various disabilities, including lack of education, many nonwhites are ill-equipped to find and

Employment in the Chicago area has risen sharply since 1964



hold jobs. Moreover, hard-core unemployment is concentrated largely in neighborhoods where unemployment is aggravated both by the inadequacy of public transportation to places where demand for workers is strong and by an apparent unwillingness of potential workers to travel far from home neighborhoods in search of jobs.

Much of the Chicago area has shown symptoms of chronic labor shortage in recent years. Jobs have gone begging either because applicants with suitable training were not available or because pay scales, although increasing, were too low to interest prospective employees.

The lineage of help-wanted ads in Chicago newspapers was lower in 1967 than in 1966 but still high by standards of the early 1960s. Not only have all types of skilled workers remained in demand, but trainable people without pertinent skills are also sought.

Signs are often displayed by businesses in Chicago and its suburbs, inviting passersby to inquire about vacancies for salespeople, cashiers, waitresses, kitchen help, stock clerks, and other jobs. Factories and offices, downtown and in the suburbs, have offered to adjust working hours and other conditions to the convenience of potential workers. Even part-time employment is offered when full-time workers would be preferred.

Large companies in the area have continued efforts to recruit workers from outside the area. The search for skilled workers has even extended to Europe.

Central location

The rapid growth and continued vitality of the Chicago area are due largely to its location. Few places in North America were so clearly foreordained as great centers of population, industry, and commerce as the land surrounding the mouth of the Chicago River and extending south to the foot of Lake Michigan.

Seventeenth-century French missionaries and explorers used the short portage from the Chicago River to the Des Plaines River connecting the Great Lakes to the Mississippi River system. Nowhere else is the divide nearly so narrow or the two drainage systems so easily joined by canals.

The earliest penetration of the Northwest Territory led, along the Ohio Valley, to the development of Cincinnati, Louisville, and the early settlements in southern Illinois. The Erie Canal, opened in 1825, facilitated east-west transportation through the Great Lakes. Beginnings of settlements north and west of what is now Chicago led to pacification, in the 1830s, of the Indians that had blocked development of the potentially highly productive farmlands of Illinois, Iowa, and Wisconsin.

The Illinois-Michigan canal was opened in 1848, allowing barges and other small vessels to move from Chicago to the Illinois River and from there to the Mississippi. This was the first of a long series of improvements, including the Cal-Sag channel opened to the south in 1923.

The most important stimulus to the rapid growth of Chicago (still with a population of only 4,000 in 1837) came with the development of the railroads beginning in the late 1840s. Chicago was the natural terminus of rail systems extending from the east and the natural starting point for the first line south to the Gulf of Mexico and the rail systems that reached the West Coast after the Civil War.

By the 1870s, Chicago was clearly the most important rail center in the United States—a position it still holds and is likely to hold as long as the railroads are a major means of transportation.

The Great Fire of 1871 wiped out a large part of the city. But the destroyed areas were quickly rebuilt, demonstrating confidence in the city's future.

Early industries

Expansion of agriculture in the fertile lands of the Corn Belt and the plains north and west spurred development of Chicago's factories, transportation facilities, wholesale and retail establishments, and banks and other financial institutions. The Board of Trade, the nation's principal public grain market, dates from 1848.

The first important factory in Chicago was established by Cyrus McCormick in the 1840s. McCormick had started building reapers in Virginia but recognized the advantages of a Chicago location in serving the rapidly expanding needs of the developing wheatlands to the north and west.

In its early years, Chicago was largely a commercial center, provid-

Harbor facilities
the Chicago River and Lake Calumet

ing facilities for the receipt and transhipment of agricultural products (mostly grain and livestock) and the receipt and distribution of manufactured goods from factories in the East. The processing of agricultural products soon also became important, however. Flour milling, tanning, and especially meat-packing grew rapidly in the 1860s and 1870s.

Like McCormick, some of the important Chicago packers, including Swift and Armour, had started operations elsewhere but were drawn to Chicago by its strategic location as a transportation center. The network of railroads radiating from Chicago allowed livestock to be shipped from farm areas at low cost, and meat (processed in large mass-production plants) could be shipped to population centers in the East, and even overseas. Development of the refrigerated boxcar in the 1880s further encouraged expansion of meat-packing in Chicago.

The industries that started Chicago on its way as a manufacturing center have since lost ground here. Components for farm machinery are still made in Chicago but no large equipment. Flour milling, tanning, and meat-packing now have only minor significance. But other, larger industries have emerged and prospered.

The natural advantages

Among the natural advantages of the area are, with its central location, the easy access to land and water transportation and, increasingly, air transportation. It has been said that "more people can be reached from Chicago in less time than from any other place in North America." Man-made channels allow goods to be sent without transhipment through the St. Lawrence Seaway to any seaport on earth and through the Illinois waterway to any place in the Mississippi system.

Another factor of economic importance is the flatness of terrain. Sites for industry, commerce, housing, and highways can be developed with a minimum of preparation. Also, Lake Michigan is fairly shallow for several miles offshore. Substantial acreage of the lake floor has been filled for parks, expressways, and steel plants.

Bedrock can be reached at a depth of less than 100 feet in most places, for construction of heavy foundations or avoided when such foundations are not needed. Moreover, the bedrock of the area is stable and not subject to quakes that would require special construction techniques.

In common with other centers on the Great Lakes, Chicago has ample supplies of fresh water for industrial and domestic purposes. Most of the area is supplied with water directly from Lake Michigan. Inland, wells of practicable depth tap large supplies of ground water.

Faced by parks and tall buildings, Chicago's lakefront is the area's main scenic attribute. It provides recreational facilities, beaches, and marinas.

Floods are not a serious problem, even though the Loop area was originally low and swampy. The grade of the land was raised several feet in the mid-1800s—a project that involved jacking up some of the principal buildings.

Other natural resources of the area include the adequate precipitation and rich soils. Illinois and Iowa alone account for 14 percent of the nation's cash receipts from farm marketings. They produce 17 percent of the nation's cattle, 40 percent of its hogs, 45 percent of the corn, and 36 percent of the soybeans. Indiana is also an important producer of corn and livestock, and Wisconsin produces 13 percent of the nation's dairy products.

The principal mineral resource of the area is the extensive coal deposit of Illinois. There are also substantial reserves of silica sand for glass, and lime stone, sand and aggregates used in construction.

Size and diversification

Size alone gives a large metropolitan area a number of advantages as a site for industry. Possibly most important is the breadth of the market such areas offer for both consumer and producer goods. Conversely, they provide buyers of most items several alternative sources of supply. And increasingly important, as technology becomes even more complex, is the capability such areas offer for ready servicing of equipment.

Large urban areas allow companies to specialize to an extent that they could not in smaller areas. They provide frequent scheduling by rail and air carriers, and a variety of financial, legal, advertising, and other technical services.

Large companies can locate or expand in an area such as Chicago, knowing that offers of competitive wages and salaries will enable them to tap a large and varied work force including almost every skill and occupation. Similarly, industries using large amounts of water, gas, and electricity can be reasonably sure that their needs will not swamp the capabilties of suppliers. And companies that want to blend into a community—not be a "big fish in a little pond"—find large areas to their liking.

Adequate space and facilities can usually be rented in large areas. Companies are not only free from having to either buy or build but can negotiate short-term leases.

Also with size comes a wide variety and high quality of restaurants, museums, music, spectator sports, recreation, education, and medical care—all of which are important to companies needing to attract and hold large numbers of executive, technical, and professional personnel.

A large area also, of course, has disadvantages as a location. Congestion, air and water pollution, high tax rates, high construction costs, high land prices, and the militancy of organized labor have caused some companies to locate in small cities outside metropolitan areas. As in other types of decisions, a balance must be struck between alternatives. The advantages and disadvantages of large and small areas must be weighed in selecting a plant site. But all factors considered, Chicago appears to shape up well in competition with other areas.

The Atomic Energy Commission, in early 1967, selected the Chicago area as the place for its proposed National Accelerator Laboratory. The largest research facility ever planned, the accelerator will contain a 200-billion electron volt proton accelerator. It will cost about $300 million, employ 2,400 people, and occupy 6,800 acres.

Weston, the site chosen, is now a town of only 100 homes (most of which are expected to be demolished) near the western edge of Du Page County, about 30 miles from Chicago's Loop.

The reasons for the selection of the site include those that have made the Chicago area a favorable location for other types of facilities. But an additional advantage of this area is Weston's proximity to the Argonne National Laboratory.

The site evaluation committee emphasized the attractiveness of the area as a place to live—attributes that would help attract a large tech-

Nonfarm employment in the United States and the five largest metropolitan areas, annual average, 1966

Industry	United States	New York	Los Angeles	Chicago	Philadelphia	Detroit
			(percent of total)			
Manufacturing	29.9	28.4	30.7	35.7	34.5	42.8
Durables	17.5	12.6	22.4	24.1	17.9	36.4
Nondurables	12.4	15.8	8.3	11.6	16.6	6.4
Construction	5.1	3.8	4.5	4.0	4.7	3.7
Transportation and utilities	6.5	7.9	5.7	7.1	6.5	5.2
Trade	20.7	20.7	21.7	21.5	19.9	20.1
Finance	4.8	8.2	5.3	5.5	5.3	4.2
Other*	16.0	17.5	17.4	15.3	15.5	12.8
Government	17.0	13.5	14.7	10.7	13.6	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Including mining.

nical and professional staff.

The area's central location and the availability of transportation, both to facilitate construction and the travel of staff members, were important considerations as was proximity to "a large number of important midwestern universities having strong graduate and undergraduate programs in the physical sciences." The requisite large supplies of electricity and water are available, and the contour of the land and types of soil are expected to facilitate fast, economical construction.

The transportation hub

No aspect of Chicago is more widely known than its service as a focal point for movements of goods and people. The area handles more freight cars than the second and third ranking areas (St. Louis and New York) combined. It is served by 18 trunk railroad lines (the number has been reduced through mergers) that operate about half the nation's total trackage. Almost all through traffic must be switched between carriers at Chicago, an operation facilitated by a half dozen major belt and switching railroads.

Railroads have been losing ground to other freight carriers for years—particularly since World War II—but they still account for many more ton-miles than any other mode of transport. The same factors that caused railroad terminals to cluster in the Chicago area have also made it a trucking center of the first magnitude. It is served by hundreds of common carriers and local cartage companies, as well as the truck fleets of private businesses.

Intercity railroad passenger traffic has dwindled in Chicago as elsewhere to a fraction of its former size. More than 90 percent of the passengers moving through Chicago terminals are now commuters. Intercity schedules have been slashed and a number of once celebrated express trains, most notably the New York-Chicago Twentieth Century Limited, have been discontinued. Total intercity travel is greater than ever but automobiles and buses and, especially for long trips, airplanes provide the means.

As recently as 1959, 12 million airline passengers landed or took off at Chicago's Midway and O'Hare airports. This number had doubled by 1966 and it is expected to double again by 1975. O'Hare International Airport handled 545,000 aircraft arrivals and departures in 1966, including 460,000 scheduled airline movements—more than any other single airport. O'Hare is used by more than 20 scheduled airlines, including foreign lines.

Because of congestion at O'Hare, 11 domestic airlines will resume service at renovated Midway Airport in 1968. Midway lost all its scheduled flights to O'Hare in the early 1960s because of the greater convenience of a single airport for passengers needing connecting flights.

There is widespread agreement that Chicago will soon need a third major airport—certainly by 1975 when about 750,000 aircraft movements are expected. City officials are urging the establishment of an airport in a polder in the lake. A technical study indicates that, at a cost of $250 million or more, this highly accessible site could be developed in three or four years by filling and pumping operations. The alternative might be a new airport inland, but at a site likely to be more than 50 miles from the Loop (O'Hare is 20 miles away).

Air freight transport, until now mainly for high-value goods, has been growing rapidly and Chicago today originates and receives about 15 percent of the nation's total.

The combination of freight and passenger transportation services available at O'Hare has been an important factor in the location of some office buildings, industrial plants, motels, and other facilities near the airport.

The Chicago area is also a center of water transportation. Its facilities, including Navy Pier, the Chicago River, Calumet Harbor, and harbors in Indiana, handle more than 40 million tons of cargo a year. By far the greatest share of this is raw materials brought to the Calumet and Indiana harbors for the steel plants.

Although Chicago has had access to the Atlantic through the St. Lawrence River since 1933, tonnage in and out of the area has increased sharply since the St. Lawrence Seaway opened in 1959. From 1958 to 1966, export and import shipments between the ports of Chicago and foreign cities (exclusive of Canadian cities) increased tenfold—reaching 3.2 million tons in 1966.

Traffic declined some in 1967 partly because of strikes, reduced shipments of grain, and the closing of the Suez Canal. Containerization of freight that can be transferred directly from trucks or freight cars to ocean ships may be causing some shippers to bypass Chicago.

The Cal-Sag Channel is being widened to 225 feet. Completion of that project, scheduled for 1968, will aid the currently rapid development of industry along the Illinois river from Chicago to Peoria. Steel mills, metal fabricators, nonferrous metal producers, chemical plants, and oil refineries are following that line of development south and west of Chicago.

The employment mix

About 36 percent of all nonfarm wage and salary workers in the Chicago area are engaged in manufacturing. This is a larger proportion than in New York (28 percent), Los Angeles (32 percent), Philadelphia (35 percent), or the United States as a whole (30 percent) but is much smaller than in Detroit (43 percent).

Next in importance to manufacturing is trade, with 22 percent of area workers. This proportion is somewhat larger than in most large areas because of the importance of wholesale and mail-order businesses here. More than 200,000 workers are engaged in wholesaling, accounting for 7 percent of all Chicago area employment compared with 5 percent nationwide.

The Merchandise Mart and the Furniture Mart, huge buildings north of Chicago's Loop, are major wholesaling facilities, mainly for consumer durable goods.

One out of every three mail-order employees works in the Chicago area, which serves as the headquarters for the largest firms, including Sears and Ward's.

About 5 percent of area workers are employed in transportation—more than in most large centers. Railroad employment, which has declined for years, is now second to employment in the rapidly growing trucking industry. Still much smaller than railroading or trucking, but growing fast, is airline employment.

The relative importance of other types of private employment in the Chicago area—construction, finance, real estate, and service industries—does not differ substantially from the situation in most other large areas or from that of the nation.

Except for manufacturing, the biggest difference between the makeup

Employment in major industry groups as proportion of total manufacturing, 1966

Industry rank	United States		New York		Los Angeles		Chicago		Philadelphia		Detroit	
	SIC code	Percent	SIC code	Percent	SIC code	Percent	SIC code	Percent	SIC code	Percent	SIC code	Percent
1	37	10.0	23	17.9	37	21.2	36	15.9	36	12.6	37	41.1
2	36	9.9	36	10.2	36	13.7	33	13.2	23	10.0	35	16.1
3	35	9.8	27	9.8	35	8.5	35	12.2	35	9.6	34	13.5
1-3		**29.7**		**37.9**		**43.4**		**41.3**		**32.2**		**70.7**
4	20	9.2	28	8.0	34	8.1	34	10.9	20	8.6	33	8.4
5	23	7.3	20	7.0	20	6.4	27	8.7	34	7.9	20	3.7
6	34	7.1	34	5.9	23	6.1	20	8.4	28	7.1	28	3.1
1-6		**53.3**		**58.8**		**64.0**		**69.3**		**55.8**		**85.9**

SIC code	Industry	SIC code	Industry	SIC code	Industry
20	Food	28	Chemicals	35	Machinery
23	Apparel	33	Primary metals	36	Electrical equipment
27	Printing and publishing	34	Fabricated metals	37	Transportation equipment

of nonfarm employment in the Chicago area and the makeup for the nation is in government employment. The larger proportion in manufacturing in the Chicago area is just about matched by the smaller proportion in government. Less than 11 percent of Chicago area workers are in government service, compared with 17 percent for the nation.

High income

The Chicago area's population, less than 4 percent of the nation's, is estimated to receive more than 5 percent of all personal income. While current data on total personal income are not available, it is certain that per capita income in the area is well above the national average and somewhat higher than in most other large metropolitan areas.

A survey by the Department of Labor release late in 1967 indicates that a Chicago area family with two children would have needed to spend about $9,500 (in 1966) to achieve a "modest but adequate" level of living. Median before-tax income of Chicago area families was probably near $11,500 that year. The median before-tax income for all urban families in the United States was about $11,000. Living costs were estimated to be higher in the New York than in the Chicago area, about the same in the Los Angeles area, and lower in the Detroit and Philadelphia areas.

In common with other large centers, the Chicago area has many high-income residents in executive, professional, and technical jobs, and also, along with other large areas, many people on public assistance.

Average gross weekly earnings of production workers in manufacturing in the Chicago area were $130 near the end of 1967. That was 12 percent higher than the national average and substantially higher than in the New York or Philadelphia areas. It was less than in the Los Angeles area, however, and well below the $160 reported for the Detroit area, where wages in automobile manufacturing raise the average.

To a large extent, differences in manufacturing wages reflect the mix of industries in different areas. Except for some rise for Detroit, manufacturing wage levels in the five largest areas have not changed much relative to each other in ten years.

In construction, union scales for all building trades workers combined in the Chicago area now average more than $5 per hour. These rates are higher than in the Detroit and Philadelphia areas or in the nation. They are about the same as the Los Angeles area but lower than in the New York area.

The trend toward durables

Two-thirds of manufacturing employment in the Chicago area is in the production of durable goods. The proportion of durable goods (principally metal products, as contrasted with such nondurables as apparel, chemicals, and food) has not changed much since the mid-1950s but is much larger than the 52 percent in durables before World War II. The shift resulted from both increases in durables and decreases in nondurables, especially meat products and wearing apparel.

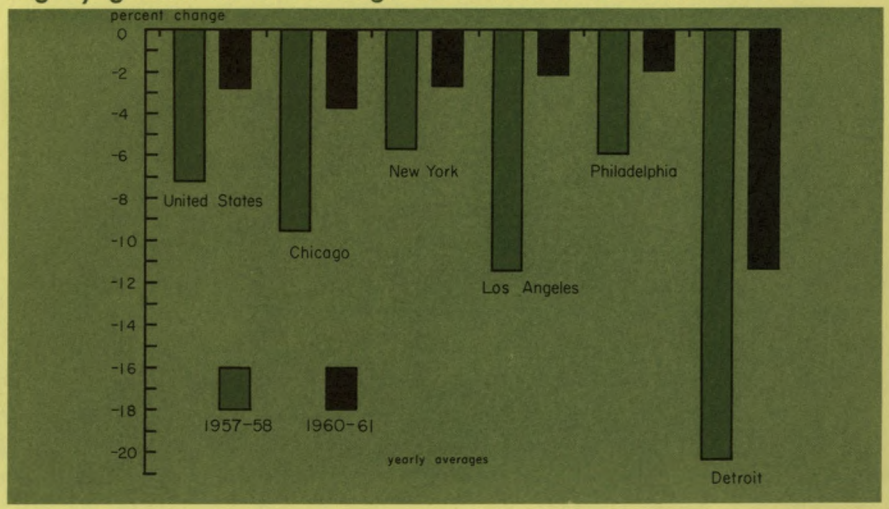
The rise in the area's durable goods activity is largely in line with a national trend. About 59 percent of all workers in U. S. manufacturing are now in such industries, compared with 49 percent in 1940. The greater proportion of durable goods reflects both the nation's prosperity and its defense effort. Economic conditions, in the Chicago area and the nation, have been more stable than before the war, despite the increased emphasis on durables.

The area concentrates on durables much less than the Los Angeles and Detroit areas, which have 72 and 85 percent, respectively, of their manufacturing workers in durables. It concentrates on durables much more, however, than the Philadelphia area and especially the New York area, which have 52 and 44 percent, respectively, of their workers engaged in durables.

Since purchases of durable goods can usually be postponed—whether for consumers or businesses—the growing importance of durables has made the Chicago area more vulnerable to business dips than areas less dependent on such industries. But the extent of the vulnerability does not appear great.

In each of the three recessions since 1953, manufacturing employment declined slightly more in the Chicago area than the nation. The Detroit area, with its heavy concentration in automobiles, had much greater declines than the Chicago area in each recession year. The Los

Declines in manufacturing employment in recession years was slightly greater in the Chicago area than in the United States



Angeles area had a larger cutback in employment than Chicago in the 1957-58 recession because of reductions in defense procurement.

Division of manufacturing into durables and nondurables, or even into broad industry groups, provides only a crude indication of industry mix and tells nothing of the diversification within these categories. Further insight can be obtained by examination of more detailed industrial classifications.

Food processing, the area's leading industry group in 1940, then accounted for more than 13 percent of its manufacturing employment. Electrical equipment became the leading group soon after World War II—a position it has held ever since. In recent years, food processing has dropped to sixth place among the area's major industry groups.

Although major meat-packers no longer slaughter in the Chicago area, more than 15,000 workers are still employed in meat processing here. The largest food industry in the area, bakery products, employs about 20,000 workers.

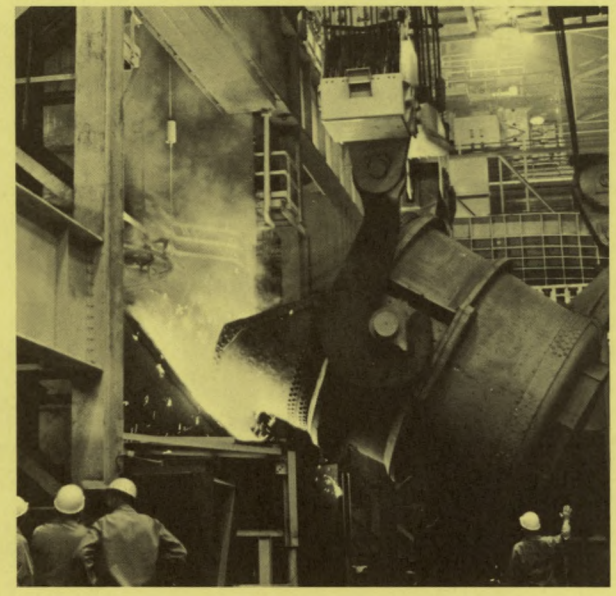
Three industry groups accounted for 41 percent of the area's manufacturing employment in 1966—electrical equipment (16 percent), primary metals (13 percent), and nonelectrical machinery (12 percent). The top three industry groups in the New York area accounted for 38 percent of manufacturing employment, in the Los Angeles area 43 percent, Philadelphia area 32 percent, and Detroit area 71 percent.

These comparisons overstate the concentration of employment in the Chicago area. The New York area's leading industry group is apparel—a group accounting for 18 percent of the area's manufacturing workers. Most of these people produce women's clothing.

The Chicago area's major industry group—electrical equipment—can be divided into several subcategories, each with distinctive products or markets and, therefore, an industry in itself—communication equipment, radio and TV sets, household appliances, lighting and wiring devices, electronic components, and electrical distribution products.

Each of these industries employed at least 10,000 workers in the area in late 1967. Together, they employed more than 160,000. Even these categories include diverse products for sale in both consumer and business markets.

Within the nonelectrical machinery industry group are companies



Steel
the Chicago area is number one

producing metalworking, farm, construction, and materials handling equipment, engines, and a variety of industrial and office machinery.

Primary metals includes nonferrous as well as ferrous metals and foundries and finishing mills as well as plants producing raw steel.

Fabricated metals, the fourth ranking industry group, is a catchall category including hand tools, plumbing fixtures, metal fasteners, stampings, and a host of other products that go to a variety of industries for incorporation into finished products.

Printing and publishing, the area's fifth-place group, includes newspapers, magazines, books, and commercial printing.

Actually, the largest single industry in the Chicago area is steel. But even with some 80,000 workers, steel accounts for less than 2.5 percent of wage and salary employment.

The concentration in this industry is, of course, very great in the South Chicago and Gary subareas. At least 60 percent of the manufacturing workers in the Gary-Hammond-East Chicago area are in steel plants.

Aside from steel, the area's largest more or less homogeneous industries are commercial printing, and television set production, each of which employs 40,000—about 1 percent of the area total.

While only highly detailed classifications can give a reliable indication of the Chicago area's diversification, analysis of some metropolitan areas requires a combination of industry groups to give meaningful totals. The Detroit area provides an excellent example. Transportation equipment, the largest industry in the Detroit area, accounts for 41 percent of its manufacturing employment. Almost all these workers are engaged in producing motor vehicles. But a large share of that area's workers in metal fabricating, primary metals, and even the textile and chemical industries are direct suppliers of parts, components, and materials to the motor vehicle industry. Altogether, motor vehicles could account for two-thirds of the Detroit area's manufacturing employment.

The two largest industry groups in the Los Angeles area are transportation equipment and electrical equipment. With ordnance, these two groups account for almost 40 percent of total employment. But almost all these workers are producing either commercial aircraft or various types of defense equipment.

The Chicago area produces less than half its relative share of defense equipment based on its proportion of all manufacturing. Fort Sheridan and the huge Great Lakes Naval Training Station probably represent the most important direct impact of defense spending in the Chicago area.

Manufacturing is highly diversified in the Chicago area—perhaps more than ever before. No major industry appears to be losing ground in the manner of meat-packing after World War II—a change long since completed. Of the five largest metropolitan areas, only Philadelphia resembles Chicago in having an economy almost as diverse as the nation itself.

Preeminent in steel

The Chicago area is the nation's leading steel producing center. Area plants passed the output of the Pittsburgh area—long synonymous with steel—in the mid-1950s.

Steel plants are concentrated in an arc extending from South Chicago into Porter County, Indiana. For years, principal producers in the area have been United States Steel, Inland, Youngstown, Republic, and Interlake. These companies have been joined in the 1960s by Midwest, a division of National, and Bethlehem, the second largest steel company.

Another major producer with facilities that have been confined to the East is Jones and Laughlin, scheduled to start shipments from its new Hennepin, Illinois, plant in 1968.

Despite the growing importance of Chicago as a steel center, the proportion of the nation's raw steel produced here—about 19 percent—has not changed significantly in 30 years. Plants established by the newer entrants to the area currently process slabs shipped from the East.

Although data are not available on shipments of steel products by area, the proportion of the U. S. total produced in the Chicago area has probably risen in recent years, especially in dollar volume, to considerably more than the 19-percent share of raw steel production. As the newer plants add blast furnaces and steel converters, the proportion of raw steel produced in the area can also be expected to increase.

Steel has been produced on a fairly large scale here since the 1880s. Sites

at the foot of Lake Michigan were admirably suited to receive bulky raw materials—iron ore, coal, and limestone—by boat or rail. Nevertheless, the needs of the large steel users in Chicago, Detroit, Milwaukee, Indianapolis, Peoria, and other nearby centers grew faster than the area's steel production.

Through the years, the industry has tended to move toward markets for finished products—as opposed to sources of raw materials—and toward water transportation. The Chicago area is on the main line of this development. A rapidly growing share of the area's steel products will come from modern installations equipped for maximum speed and economy of operation and for products of the highest quality.

An estimated 40 percent of the nation's total output and 50 percent of its flat-rolled steel products (mostly sheets and plate) are used in a market area readily served from Chicago. Spokesmen for Bethlehem say that 65 percent of all U. S. steel demand lies within an area that could be supplied economically from the company's new plant in Porter County, Indiana.

All major steel producers in the Chicago area are adding new facilities capable of turning out products with the closer tolerances of gauge, width, and finish required for high-speed processing equipment. Some of these mills will not add to total capacity but will replace obsolete facilities in Chicago and elsewhere.

Some producers view the growing competitive struggle with alarm, especially in view of the increased penetration of domestic markets by imported steel. But such competition is a clear benefit to steel using companies in the area and indirectly to the entire economy of the region and the United States.

Financial Services

The growth and vitality of an area depends heavily on the financial resources available to it. Financial institutions perform a vital function by channeling credit into profitable investments that stimulate growth of income and employment. While serving the credit needs of the area, these institutions also give savers a choice of earning assets with varying degrees of liquidity and return. In addition, they handle the huge volume of transactions and paperwork needed to keep the payments mechanism working smoothly.

Although an industrial and commercial area like Chicago is necessarily also a financial center, there need not be a close relation between the volume of industrial and commercial activity and the volume of credit granted locally.

Large corporations can tap credit sources outside the area. Similarly, the financial services an area provides are not necessarily limited to services needed in the area. Nevertheless, people and businesses depend on nearby institutions for most of their financial services. The types and amount of financing provided reflect the makeup of these institutions.

An important factor in the development of Chicago as a financial center was the legal framework within which the financial institutions of Illinois operate. Branching by banks and savings associations is prohibited in Illinois, and no provision is made for mutual savings banks. Indiana allows limited branching, with the result that there are branches in Gary and Hammond.

The financial structure

Three general types of financial institutions are represented in the area:

- Commercial banks that provide checking accounts, accept deposits (both demand and time) and provide a wide variety of services.
- Intermediaries, such as savings and loan associations and credit unions, that lend or invest savings
- Specialized agencies, such as insurance companies, stock and commodity exchanges, security dealers, brokers, finance companies, and currency exchanges

Chicago has an abundant representation of all types. By most measures, the area ranks second to New York as a financial center. It has the second largest Federal Reserve Bank, two of the ten largest commercial banks, two insurance companies with assets of more than $1 billion, three savings and loan asso-

LaSalle Street
the Board of Trade flanked by the Continental Bank and the Federal Reserve Bank

ciations with share capital of more than $500 million, and two of the nation's largest finance companies. There are also hundreds of smaller financial businesses in the area. Many of these institutions are on or near La Salle Street, "the Wall Street of Chicago."

About 5 percent of Chicago area employment—more than 170,000 people—is in finance, insurance, and real estate. Insurance companies provide nearly 30 percent of the employment in the financial sector. Banks and other credit agencies provide more than 30 percent. The rest is spread over all other financial businesses, including brokers in securities and commodities.

The commercial banks

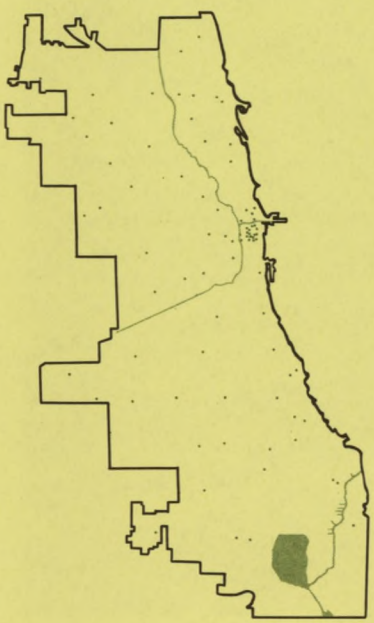
There are more than 300 commercial banks in the eight-county Chicago area—more than in any of the other four largest metropolitan areas. Many of these banks were started in the past few years. Less than a third are in Chicago itself. Twenty are in the Gary-Hammond area, and the rest are spread throughout the suburbs. Altogether these banks have deposits totaling more than $20 billion—6 percent of all U.S. commercial bank deposits.

Although the area has more commercial banks than any of the other four areas, it has fewer bank offices because branch banking is permitted in the other areas. As a result, the population per bank office is more than twice as great in the Chicago area as in any of the others.

Commercial bank deposits have increased about 56 percent since 1960—less than the gains in the New York, Los Angeles, and Detroit areas, but a little more than in the Philadelphia area.

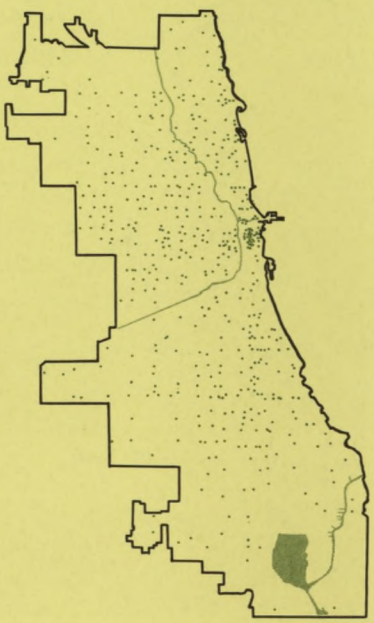
Chicago's many currency exchanges supplement the financial services of banks and savings associations

commercial banks



savings and loan associations

currency exchanges



Comparison of commercial banking facilities, mid-1966

	1965 population		Banks		Banking offices		Population (in thousands)		Total deposits	
	Thousands	Percent of U.S.	Number	Percent of U.S.	Number	Percent of U.S.	Per bank	Per office	Per capita	Increase, 1960 to mid-1966
New York	15,821	8.2%	217	1.6%	1,822	10.9%	72.9	8.7	$4,177	67.9%
Los Angeles	8,898	4.6	110	0.8	1,123	6.7	80.9	7.9	1,754	59.9
Chicago	7,284	3.8	305	2.2	347	2.1	23.9	21.0	2,798	56.5
Philadelphia	4,664	2.4	88	0.6	536	3.2	53.0	8.7	1,732	53.6
Detroit	3,987	2.1	49	0.4	480	2.9	81.4	8.3	2,140	73.6

Increases in time deposits account for most of the gains in all areas. With successive increases in the interest rates paid on savings and time certificates, banks have competed more effectively for a larger share of savings flows and short-term money-market funds. Profitable loans and investments have provided the incentive.

Time deposits of individuals, partnerships, and corporations in Chicago area banks totaled $8.7 billion in mid-1966—about 20 percent more than demand accounts of individuals, partnerships, and corporations.

One important group of bank customers are other banks. Another is governments—federal, state, and local. Together, interbank and government accounts comprise almost a fourth of the deposits in Chicago area banks.

The distribution of commercial bank assets in Chicago resembles that of the New York banks and reflects the character of activity in the area. Loan and investment totals are heavily weighted by the largest banks. Eleven reserve city banks accounted for more than 60 percent of the deposits of the area in mid-1966. About 43 percent of the earning assets of these banks were in commercial and industrial loans. Mortgage and consumer loans combined accounted for only 12 percent.

This was in contrast with the large portion of bank funds directed into the financing of household-type expenditures in the Los Angeles, Detroit, and Philadelphia areas.

The area's economic structure is reflected in the distribution of business credit at Chicago banks. Of roughly $5.5 billion of loans outstanding to nonfinancial businesses at the largest Chicago banks, about a third were to companies engaged in the production of durable goods. More than half of this amount went to manufacturers of machinery. Public utilities account for about 15 percent of all business credits by the large banks. About 10 percent each goes to dealers and processors of farm commodities, to the petroleum and mining industries, and to wholesale and retail trade establishments. Smaller banks have smaller portfolios of business loans and, compared with larger banks, do little lending to large corporations.

As in most areas, the proportion of deposit funds placed in loans by Chicago banks has been rising in recent years. At the same time, banks have purchased large amounts of securities issued by state and local governments. Both developments tend to channel bank funds into local activity.

A basic characteristic of a major financial center, however, is its ability to obtain and supply funds outside the local area. Large Chicago banks have broadened their operations in recent years by competing more actively for funds in the national money market. This has been mainly by issuing negotiable certificates of deposit.

Chicago banks have expanded

their international business in recent years through the establishment of foreign branches and international banking and finance corporations (under the Edge Act). These banks now have six branches abroad and four Edge Act corporations, and applications have been filed for permission to establish others. In addition, there are numerous offices abroad that maintain relationships with other financial centers.

While foreign lending has been dampened by the voluntary credit restraint program to reduce the U. S. deficit in the balance of payments, the long-run trend is for banks to expand further into the financing of worldwide trade and industrial growth.

Another way Chicago banks reach beyond the metropolitan area is through their relationships with correspondent banks. Roughly 15 percent of the demand deposits of major Chicago banks are deposits of other banks, many of them in towns hundreds of miles away.

While these deposits are to a great extent working balances and legal reserves of smaller banks, they constitute an important source of funds to city banks. At the same time, the correspondent relationship provides a channel through which customers of smaller banks have access to the resources and specialized services of the central money-market institutions.

Funds can flow to borrowers outside the area through loans to smaller banks, through participations in loans, and through purchases of assets from other banks. But for the most part, the services to smaller banks are of a noncredit-type, such as check clearing, safekeeping, and investment advice.

Partly because of the unit-banking structure in the Chicago area, banking resources are less concentrated in the largest institutions than in most metropolitan areas. The very large banks account for smaller proportions of both the number of banks and total deposits. In fact, 30 percent of the deposits in the area are in banks with deposits of less than $100 million—more than twice the proportion for any of the other four major areas. Following is a comparison of the percentage of banks in the five largest metropolitan areas with deposits of $500 million or more:

	Number of banks	Percent of area	
		Banks	Deposits
Chicago	5	1.6	54.9
New York	14	7.3	82.0
Los Angeles	6	5.4	75.4
Detroit	4	8.1	72.8
Philadelphia	5	5.7	68.1

Nonbank financial institutions

Commercial banks are unique among financial institutions in that their demand deposits provide the principal means of payment. But several other types of financial institutions also act as depositories for savings and serve various segments of credit markets. They include savings and loan associations, mutual savings banks, insurance companies, pension funds, and credit unions.

The importance of these institutions varies in different areas. Although data are not available to measure the aggregate of savings in each type, personal deposit-type sav-

Deposits at commercial banks, mid-1966

	Total deposits		Deposits of individuals, partnerships, and corporations							
			Total		Demand		Savings		Other time	
	Billion dollars	Percent of U.S.	Billion dollars	Percent of U.S.	Billion dollars	Percent of U.S.	Billion dollars	Percent of U.S.	Billion dollars	Percent of U.S.
New York	66.1	19.2	43.2	16.3	23.4	18.2	10.3	11.4	9.5	20.6
Los Angeles	15.6	4.5	13.4	5.0	6.2	4.8	4.9	5.5	2.2	4.7
Chicago	20.4	5.9	16.0	6.0	7.2	5.6	6.5	7.2	2.3	5.0
Philadelphia	8.1	2.3	6.1	2.3	3.4	2.6	1.6	1.8	1.1	2.4
Detroit	8.5	2.5	6.9	2.6	2.7	2.1	3.2	3.5	1.0	2.2

Earning assets of commercial banks, mid-1966

	All commercial banks	Reserve city member banks				
		New York	Los Angeles	Chicago	Philadelphia	Detroit
	(percent of total)					
Loans						
To business	24.6	42.8	28.1	42.9	35.1	19.7
On real estate	16.6	7.4	19.1	5.1	8.8	24.3
On securities	2.8	8.5	1.4	5.6	2.6	2.1
To finance institutions	4.4	8.4	7.4	11.1	9.4	6.8
To individuals	15.2	6.4	15.4	6.4	20.3	13.7
Other	3.7	3.5	2.1	1.9	1.7	1.2
Securities						
U. S. government	17.1	9.6	10.9	13.6	11.4	16.3
State and local	13.0	11.6	12.5	11.4	9.3	14.6
Other	2.6	1.8	3.1	2.0	1.4	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

ings in the five largest metropolitan areas can be compared. The share of total savings held in these forms by Chicago area institutions appears smaller, relative to population, than in the New York and Los Angeles areas but larger than in the Detroit and Philadelphia areas.

Much of a community's personal savings is channeled into the local mortgage market through savings and loan associations. There are about 290 such associations in the Chicago area (again because branching is not allowed)—more than in any of the other areas. There are 140 savings and loan associations in the city of Chicago.

The total share capital of associations in the area was nearly $8 billion in 1966—more than the personal savings deposits of commercial banks. This capital grew about 9 percent a year between 1961 and 1966.

Investments of these institutions are directed largely into housing. Mortgages amount to more than 90 percent of savings association assets.

The relative importance of savings and loan associations in different metropolitan areas is indicated by the following comparisons of the share capital and population of each area taken as percentages of U.S. totals:

	Percent of United States	
	Population	Share capital
Chicago	3.8	7.1
New York*	7.5	7.4
Los Angeles*	4.0	12.8
Detroit	2.1	1.4
Philadelphia	2.4	2.1

*Based on fewer counties than figures used in the table on page 32.

Although far behind Los Angeles, where associations have been bidding for funds from all parts of the country, Chicago clearly has more than a proportionate share of savings and loan capital. The relatively small share of savings capital in New York and Philadelphia associations, on the other hand, reflects the greater importance of mutual savings banks in these two metropolitan areas.

Chicago is increasing its importance as a center for insurance companies. Two major casualty underwriters based in Chicago have, with their affiliates, aggregate assets of almost $5 billion. In addition to these giants, Chicago is home to nearly 100 smaller insurance companies and has important regional offices of companies headquartered elsewhere.

The Board of Trade
the nation's principal
market for grain trading

Other financial institutions

Oldest and, perhaps, most famous of Chicago area financial institutions is the Board of Trade—long the nation's principal market for cash and futures trading in corn, wheat, rye, oats, and soybeans. Its functions are supplemented by the Chicago Mercantile Exchange, which provides facilities for trading in eggs, poultry, pork bellies, and other perishable food products.

The Midwest Stock Exchange was formed in 1949 through a merger of the Chicago Stock Exchange with a number of other Midwest regional exchanges. Trading in the Midwest Stock Exchange, although small compared with New York, is larger than in any other exchange outside New York. Chicago has about 40 investment banking houses, including several large firms headquartered there. They, with the bond departments of major banks, underwrite and distribute billions of dollars of new securities every year. In recent years, between 20 and 25 percent of the nation's tax-exempt securities sales have been managed by Chicago-based underwriters. Chicago underwriters are much less important in corporate security flotations, however.

Also important as suppliers of credit to business are commercial finance companies. These help finance risks that are not acceptable to banks.

The Chicago area has almost 150 consumer finance companies with nearly 600 branches. These are mostly "small loan" companies.

Of all the financial businesses serving Chicago, the one most peculiar to the area is the currency exchange. With banks widely spaced, many areas of the city need additional financial facilities. Currency exchanges provide a number of services. They cash checks, sell money orders, accept payments of utility bills, and issue automobile licenses.

There are more than 500 currency exchanges in Chicago and at least 200 in the suburbs. These businesses started during the Depression, when three-fourths of the city's banks failed. While some other cities also license similar enterprises, the Chicago area has two-thirds of the country's total number.

On the whole, the Chicago area's financial community is smaller in terms of employment and dollar volume of activity than its wealth, income, and industrial importance would suggest. Its growth has lagged behind that of the other largest metropolitan areas. To an extent, the existing structure reflects long established habits of looking to New York for certain types of financial services.

Personal savings-type deposits and share capital, mid-1966
(dollar amounts in billions)

	New York		Los Angeles		Chicago		Philadelphia		Detroit	
	Dollar amount	Percent of U.S.	Dollar amount	Percent of U.S.	Dollar amount	Percent of U.S.	Dollar amount	Percent of U.S.	Dollar amount	Percent of U.S.
Time deposits in commercial banks*	12.1*	10.2	6.2	5.3	7.2	6.1	2.3	1.9	4.1	3.4
Deposits in mutual savings banks	27.8	51.3	—	—	—	—	2.8	5.3	—	—
Savings and loan share capital	8.2†	7.4	14.0†	12.8	7.8	7.1	2.3	2.1	1.5	1.4
Total	**48.1**	**17.0**	**20.2**	**7.2**	**15.0**	**5.3**	**7.4**	**2.6**	**5.6**	**2.0**

*Savings deposits and other time deposits in accounts less than $100,000.

†Area coverages not strictly comparable with other New York and Los Angeles data.

Note: Partly estimated.

Local Government

The Chicago area has more local governments than any other such area in the United States, including New York. In 1962 the Bureau of the Census reported 1,170 governmental units in the Chicago standard consolidated area—1,060 of them in Illinois and 110 in Indiana.

The New York area had 1,112 such units and the Philadelphia area had more than 900, roughly the same in relation to population as Chicago. By contrast, the Los Angeles area had less than 600 and Detroit had only 242.

Multiple units

The huge number of governmental units in the Chicago area indicates the high fragmentation of responsibility for local public services. Such fragmentation is of two types: vertical and horizontal.

Vertical fragmentation refers to local units being so "layered" that property owners, whose real-estate and personal-property taxes are the fiscal mainstay of local government, contribute to the support of two or three general-purpose units—a county, township, and city, for example—along with at least one special-purpose unit, but commonly three or four or more. Examples of special-purpose units are elementary and high school districts, park districts, sanitary districts, and a number of other types, such as forest preserve, street lighting, fire protection, mosquito abatement, public health, and library districts.

Horizontal fragmentation refers to the proliferation of units of the same type with geographically limited jurisdictions. There were 375 school districts in 1962, for example, with elementary districts in the majority.

By far the largest of the area's school districts is the Chicago Board of Education. This unit, operating both elementary and high schools, had upwards of 500,000 pupils—close to half of all public school pupils in the area. The other 374 districts ranged widely in size—from a roomful of pupils to roughly 40,000 in the Gary district.

Other special districts are equally numerous and also greatly varied in size. The largest include the Chicago Park District, which covers Chicago; the Metropolitan Sanitary District of Greater Chicago, which serves the city and most of Cook County; and the Cook County Forest Preserve District, which is coextensive with Cook County.

One reason for the creation of such units has been the rigid limitation on public borrowing in Illinois. General obligation debts of *each* governmental unit are limited to 5 percent of the assessed value of taxable properties within its boundaries.

Another factor behind the formation of special-purpose units has been the need to provide services for areas not necessarily coextensive with general-purpose governments.

There were 271 cities and villages in the Chicago area in 1962. These units provided, along with other services, important controls over land use. With the accelerated development of suburban areas since the war and the growing importance of nonresidential land uses, the administration of zoning and building codes has become especially significant.

In efforts to restrain expenditures or widen local tax bases, fiscal considerations often have been emphasized in formulating land-use plans. As a result, zoning has often lacked coordination and consistency.

Partly to mitigate the effects of governmental fragmentation on policies regarding land development, but also to deal with other problems of more than purely local concern, the Illinois legislature established the Northeastern Illinois Planning Commission in 1957. The commission, intended primarily to assist both the local governments in the six-county Chicago SMSA and the state government in planning land use in the Chicago area, recently moved to coordinate its efforts with official agencies in nearby counties in Indiana.

Financing government

Revenues of local governments in the Chicago area totaled more than $1.9 billion in 1962, the most recent data available on a comparable basis. According to the Bureau of the Census, more than half came from property taxes. The next most

Chicago's Loop—breaking out of the old boundaries

important major source of income was state aid, including federal funds channeled through state treasuries. This amounted to $300 million. Nonproperty taxes provided $136 million; water supply revenues, $95 million; other utility charges, $143 million; federal aids provided directly, $27 million; and various service charges, miscellaneous revenues, and employee retirement receipts, $248 million. Total revenues for 1967 were probably close to $2.3 billion—about 20 percent more than five years before.

In per-capita terms, local revenues in the nation's five largest metropolitan areas in 1962 gave Chicago, at $285, third place, well below Los Angeles and New York but above Detroit and Philadelphia. Similarly, property-tax collections for Chicago-area governments averaged $145 per capita, falling below Los Angeles and New York but exceeding Detroit and Philadelphia.

To a great extent, differences in the per-capita revenues of the five areas reflect variations in state and local activities within each—conspicuously highway and welfare programs. Also important are area-to-area variations in the ratio of capital expenditures to total expenditures.

Total expenditures of the Chicago-area governments were more than $2 billion in 1962, slightly more than the total revenue for the year. Of the $1.7 billion in general expenditures (a category that excludes outlays of public enterprises and employee retirement plans), three-fourths represented current operating expenses. The remaining fourth covered capital outlays.

From the standpoint of expenditures, building and operating schools were by far the most important functions of local units. In the Chicago area, these expenditures accounted for more than 38 percent of all operating and capital outlays combined. Highway spending came next, at 10 percent, followed by police protection, at 7 percent. Welfare, conducted largely under the general assistance program for the needy, accounted for a little more than 4 percent.

The ratios for both welfare and highways fall far short of measuring the aggregate level of spending for these purposes, however, because they do not take into account outlays made directly by state governments. State highway expenditures allocable to the Chicago area came close to matching the amounts channeled through local units. State welfare expenditures in the area, chiefly cash assistance to the needy under joint federal-state aid programs, were more than twice the local welfare outlays.

When allowance is made for the part that state expenditures play in programs shared by state and local governments in the Chicago area, welfare displaces police protection in third place, after education and highways.

Still on the Growth Curve

Studies projecting growth trends for metropolitan areas, or for local industries, are often invalidated by events before the publication process is completed. Clearly, however, time has not vitiated the underlying factors that made Chicago and its environs a great industrial, commercial, transportation, and financial center.

Chicago is not likely to match the growth of dynamic newer areas in the southern and western regions of the country. But extremely rapid growth, with great influxes of population to be provided with productive employment, educational opportunities, and public services, also has drawbacks.

Chicago's economic growth has been sufficient, not only to use labor more fully than in other large areas, but also to attract workers from the outside. Recent trends indicate that Chicago can be expected to maintain its economic position relative to most other areas and to continue to make important contributions to the Midwest, the national, and the world economies.


CONRAD
HILTON

certain raw materials. But as the year drew to a close, the strength of inflationary pressures became increasingly apparent.

Total output and military spending

Total spending on goods and services rose about 5.5 percent in 1967 — a substantial increase although the smallest since 1963. Average prices of all goods and services increased about 3 percent, however — somewhat more than in 1966 and the most for any year in a decade. Physical output rose only about 2.5 percent — the smallest year-to-year gain since the 1960-61 recession.

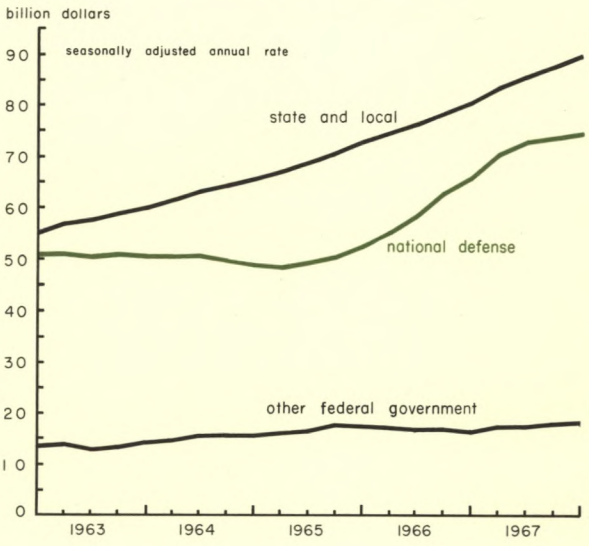
The current wave of price inflation dates from the second half of 1965. In July 1965, the President announced a step-up in military operations in Vietnam. In subsequent months, it became clear that a greatly expanded military effort was being superimposed on a booming private economy. Measures taken since to increase revenues and hold down nonessential spending have not been enough to alter the highly expansionary impact of federal fiscal policy.

Defense outlays showed by far the largest increase of any major spending sector in 1967. Military expenditures approached $73 billion — up 20 percent from the year before — and exceeded 9 percent of all spending, represented by the gross national product. An increase of the same proportion had come in 1966, the first full year of escalation in the Vietnam war. In the fourth quarter of 1967, the rate of total defense spending was about half again as great as in 1962-65, when these outlays were relatively stable.

Defense spending is widely expected to rise more slowly in 1968. However, in view of the vast uncertainties connected with international conditions, the possibility of a renewed acceleration in defense outlays cannot be ruled out. The impact of defense spending on the federal budget and the economy remains the major uncertainty overhanging the economic scene.

Although many manufacturers in states of the Seventh District — Illinois, Indiana, Michigan, Wisconsin, and Iowa — make vital contributions to military procurement and some major military bases are located here, the proportion of income

National defense outlays
continued to lead the rise in government expenditures



generated by defense spending in this region is only about half as great as for the nation. Also, no major industrial center in the district depends on defense procurement for a substantial part of its business. As a result, changes in defense spending have less direct impact on the economy of this region than some others, especially the West Coast.

Equipment spending slows

Many Midwest producers of machinery and equipment had declines in orders in the first half of the year, and to a less extent in output. Cutbacks in overtime were common, and some companies reduced employment. These trends partly reflected suspension of the investment tax credit in October 1966 and its restoration in June 1967 (retroactive to March). But probably more important were declines in construction and farm income and the general sluggishness of demand for manufactured goods. In contrast with 1966, when almost all equipment companies were operating at practical capacity, only producers of electrical generating equipment and certain types of specialized machinery operated at capacity.

Orders for machinery and equipment rose in the second half. For the year as a whole, purchases of all types of producers' durable goods were up about 6 percent, due largely to higher prices. In contrast with 1964-66, when equipment outlays increased twice as fast as total spending, the gain in 1967 was about equal to the rise in total spending.

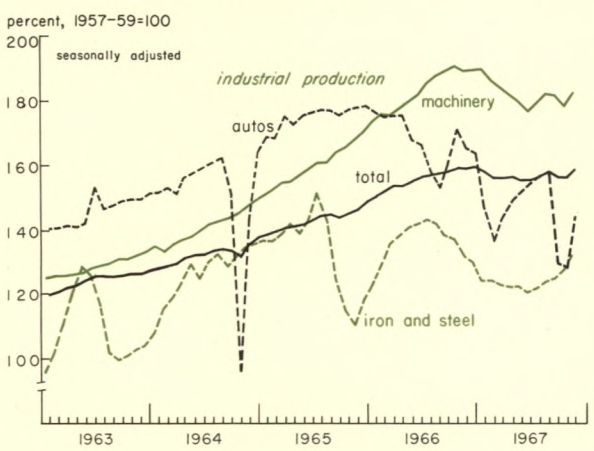
The prospect at year-end was for a further moderate increase in equipment purchases. But, as in 1967, a large part of any gain in 1968 will probably reflect higher prices. No general renewal of the boom in capital goods is expected. Margins of unused capacity, lowered profit margins, higher costs of equipment, and limited availability of funds are all factors restraining equipment spending.

Autos and household durables

Just over 7.4 million passenger cars were produced in 1967. Output would have been about 500,000 more had labor-management disputes not stopped work, principally in September and October. But even without interruptions, automobile production would have lagged behind the 8.6 million turned out in 1966 — which itself was well below the record 9.3 million in 1965.

Auto sales were poor in early 1967 compared with other recent years. Despite reduced output, dealers had a 60-day supply of cars at the end of the first quarter, compared with a 49-day supply a year earlier. Demand for cars, new and used, picked up sharply in the late spring and early summer. But the uptrend became apparent only after schedules for production of 1967 models had been determined. As a result, many dealers were short of cars before 1968 models became available. Retail prices remained strong. In the final quarter, car sales were depressed by effects of the strike. Sales of imported cars — almost all of them small cars of a type not made in the United States — spurted to 760,000 last year, exceeding by 15 percent the previous record for 1966.

Production of durable goods declined in the first half but were rising again at year-end



Producers of most household appliances, television sets, and furniture also reduced output in the first half as sales failed to match expectations and excess inventories accumulated. As in the case of autos, reductions in output of some goods overshot the mark, adversely affecting sales. Production of most types of consumer durables picked up again after midyear.

Lower sales of automobiles and other consumer hard goods were accompanied by much slower rates of expansion of consumer instalment credit than in other recent years. At year-end, improved debt positions, larger holdings of liquid assets, and higher incomes all suggested that consumers could increase purchases of durables and carry out their intentions to buy reported in consumer surveys. Projections of sales for automobiles and most other major items of consumer hard goods for 1968 pointed to substantial increases over 1967.

Steel ends year on upswing

Production of raw steel totaled 127 million tons last year — 5 percent less than the record set in 1966. Because mill inventories rose, shipments of finished steel were off about 7 percent. Imports of steel continued large, accounting for about 12 percent of domestic usage.

With mills operating well below capacity and fairly large inventories of finished steel being maintained ready for shipment, lead times on steel orders were much shorter than in 1966. But unfortunately, deliveries to small companies dependent on highway transport were disrupted in the early fall by an extended steel haulers' strike.

Orders and output for a broad variety of steel were rising at year-end as consumption of steel increased and some customers decided to start rebuilding inventories that had been low relative to rates of use. Late in the year, the rate of orders for some types of steel, principally sheets, equaled capacity. Strong demand and reduced profits encouraged producers to raise prices, especially on flat-rolled products.

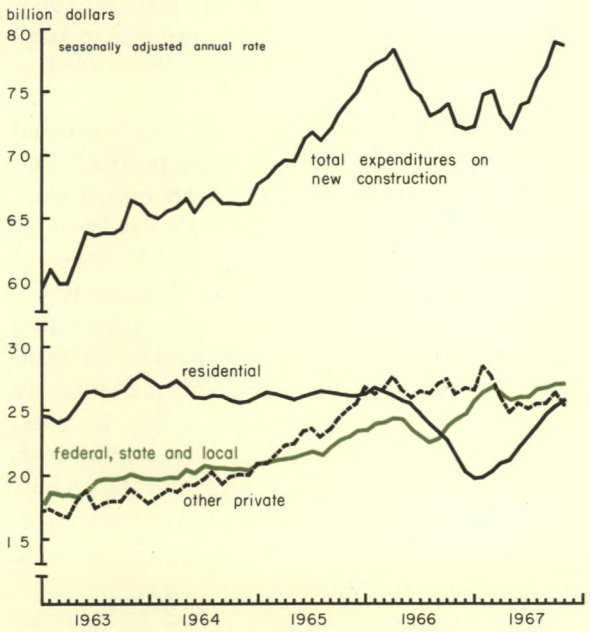
The stage has been set for a substantial rise in steel production in the first half of 1968 — perhaps to the highest level in history. In addition to heavy requirements for current steel consumption — particularly by automobile manufacturers — an early start on inventory building is expected as a hedge against a possible work stoppage when the current steel labor contract expires August 1.

Construction activity on rebound

Residential construction rose substantially from the sharply reduced level reached late in 1966. Construction costs averaged about 5 percent higher late in 1967 than a year earlier, mainly because of large increases in wages in the building trades. Total construction activity in the three months ending in November was 6 percent greater than in the same period of 1966 in dollar terms but about the same after adjustments for higher prices.

Construction contracts reported by F. W. Dodge strengthened substantially in the spring, residential construction taking the lead. In the August-November period, total construction contracts were at record highs. For the first 11 months, compared with the same period in 1966, contracts were up 4 percent for the nation and 8 percent for the Midwest.

Construction activity
recovered the 1966 loss in 1967
as homebuilding rebounded



Shortages of skilled construction labor limited the increase in building in the last months of 1967. Chicago, Detroit, Milwaukee, and Indianapolis were among the major centers reporting severe labor shortages. Clearly, a large backlog of construction work was building up in the second half of 1967. While federal projects were being delayed in an effort to cut nondefense spending, voters at state and local elections in November approved a record volume of bond issues for new projects.

Housing might again, as in 1966, become vulnerable to a money squeeze if financial institutions cannot maintain savings flows in the face of attractive yields on such competitive investments as short-term marketable securities. Nevertheless, projections of housing starts looked to 1.4 million units or more in 1968 — up from 1.3 million in 1967, but somewhat below the rates of late 1967.

Demand for workers strong

Despite some reductions in manufacturing employment and some increases in estimates of unemployment, labor markets in the Midwest remained tight in 1967 — certainly in comparison with the years before 1965.

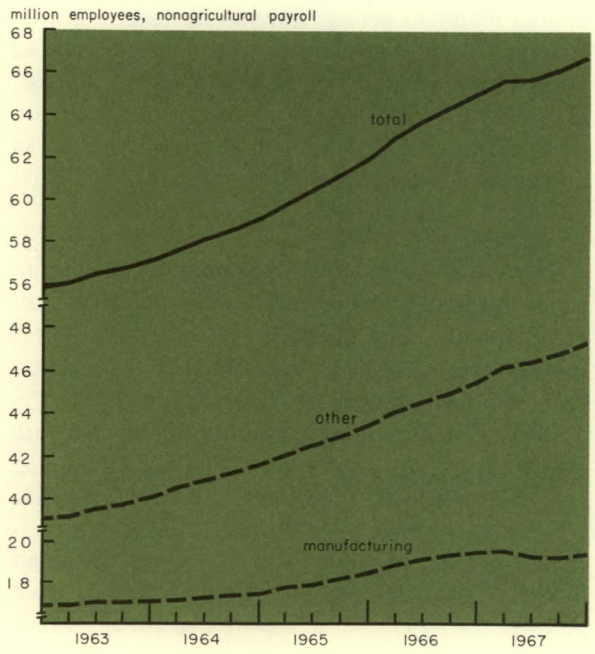
Twelve of 23 major labor markets in the Seventh District were classified late in the year as having low unemployment. These markets, which include Chicago, Milwaukee, and Indianapolis, had less than 3 percent of the labor force unemployed and looking for work. A year before, 18 centers were in this class. Claims for unemployment insurance were appreciably higher for centers emphasizing production of farm machinery, motor vehicles, and automotive parts than for the more diversified centers. Demand for workers was strengthening at year-end and gave indication of further strengthening in the first quarter of 1968, especially in the auto and steel industries.

Personnel managers found little or no improvement in the availability of skilled or trainable unskilled workers in 1967. Total employment rose as increases in the trade and service industries and in government more than made up for declines in manufacturing. This was the case for the nation and the Midwest.

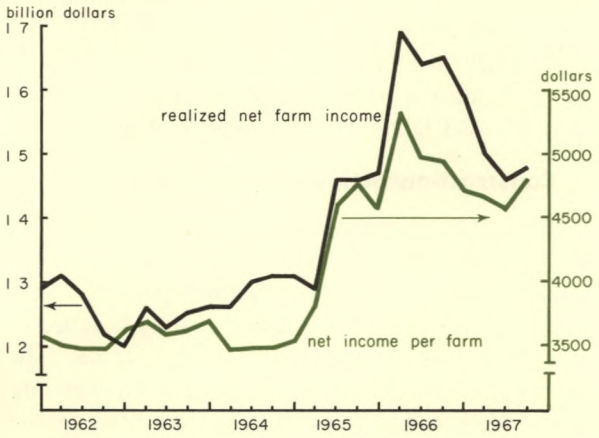
Increasingly, unemployment has been concentrated in disadvantaged groups with little competence in the communication and computation skills required in almost every aspect of modern business and industry. As a result, competition for desired

workers (and not merely union demands) brought on an accelerated rise in wages and salaries last year — to an increase of 5 percent or more, compared with an average of 3 percent before 1966. By exceeding the rate of growth in production per manhour, the recent rate of rise in wages provides a strong inflationary thrust.

Employment leveled
in the spring but rose again in the second half



Farm income in 1967
was below the 1966 level



Farm income declines

Net income of most farmers in the district declined sharply in 1967 from the high levels reached in 1966—the decline being due mainly to the lower prices farmers received, the higher prices they paid, and reduced government payments. Prices of such important Midwest farm products as hogs, corn, and soybeans declined substantially. The prices farmers paid for items they used in production, on the other hand, continued to rise, averaging about 2 percent more than in 1966.

Sharp curtailment in government payments to district farmers was due partly to reduced participation in the feed-grain program. Farmers of the states making up the district brought back into production about a third of the acreage that in previous years had been idle under government programs. District farmers increased the acreage planted to corn by about 8 percent, bringing it to the largest total since 1960. Soybean acreage was boosted 7 percent to a new record. This, with favorable weather throughout much of the growing season, brought bumper crops in most areas. Illinois farmers obtained record corn yields — more than 100 bushels per acre. They harvested slightly more than a billion bushels for the first time.

Prices of farmland in the district continued to rise. In September, country bankers reported prices about 6 percent higher than a year before. This increase was less, however, than in 1966, which possibly reflected the lower incomes in 1967 and difficulties in financing purchases of land at acceptable rates and terms.

Most institutional lenders sharply curtailed credit extended on farm real estate in 1967, and interest rates remained high. Farmers turned more to individuals, especially sellers, for credit to finance land purchases. Transfers of farmland through land contracts increased substantially.

Farmers made much greater use of operating credit in 1967. At midyear, nonreal-estate farm loans outstanding at member banks were up nearly 14 percent from the level a year before. Demand for credit continued strong in the second half. Larger crops usually allow sizable payoffs of outstanding loans, but lower prices caused many farmers to postpone marketing their grain in the hope that prices would improve.

In addition, many farmers turned to livestock

feeding as an outlet for their large crops. Shipments of feeder cattle into Illinois, Indiana, and Iowa rose about 4 percent in September and October from the high levels of 1966, and farmers were reported withholding gilts to increase pig farrowings in 1968.

Funds available to accommodate strong demands for operating credit were adequate in most areas, although the rate of deposit growth at banks in agricultural areas lagged behind that of the rate for 1966. In November, demand deposits were down slightly from a year before but time deposits were up about 13 percent.

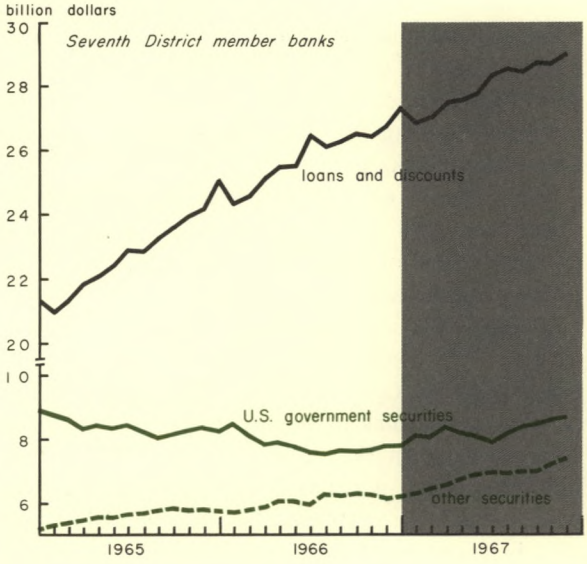
Growth in bank credit

Total commercial bank credit increased faster in 1967 than in any year since World War II, lending further support to the expansion of economic activity. Much of the rise represented bank acquisitions of unusually large amounts of Treasury and municipal securities. Loans increased less than in 1965 or 1966.

The smaller expansion of bank loans for the year as a whole reflected both the slower pace of business activity in the first half and the large amount of funds companies raised in the capital market throughout the year.

As industrial output declined early in the year, monetary policy was designed to promote increased activity. Momentum was gradually gained,

All major types
of bank credit rose in 1967



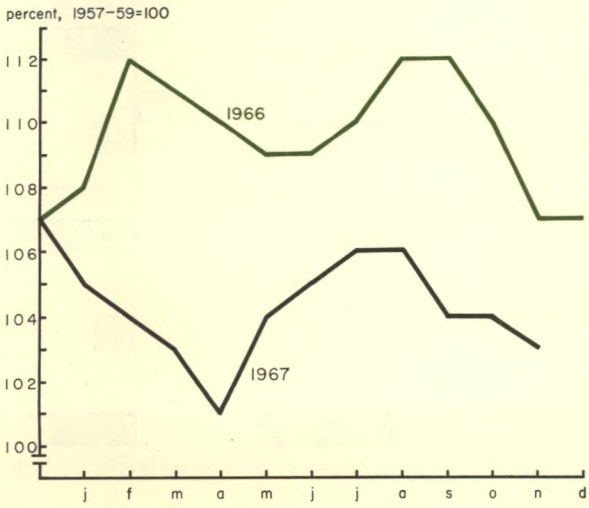
partly in response to the persistent rise in federal spending. The Federal Reserve System continued to provide reserves to commercial banks, enabling them to buy substantial amounts of federal and municipal securities and to accommodate a modest increase in demand for loans. Nevertheless, the amount of total credit available was less than demanded and interest rates advanced.

Total loans and investments of member banks in the Seventh District were 11 percent higher in early December than a year before. In 1966, total credit at these banks rose only 6 percent, reflecting the Federal Reserve System's policy of monetary restraint and the marked slowdown in the expansion of both reserves and deposits in the second half of that year.

Increases in investments exceeded increases in loans at both city and country banks. Loans and discounts at member banks in the district climbed 8 percent, compared with 10 percent in 1966. Commercial and industrial loans at the large banks for which information is available rose 10 percent, compared with 17 percent in 1966.

Loans to business advanced rapidly in the spring as some corporations borrowed to meet accelerated tax payments. Business loans leveled off in the second half, however, as requirements for funds to finance investments in inventories, plants, and equipment were reduced and sales of securi-

Farm commodity prices
averaged well below year before



ties (partly to repay bank loans) continued at record levels.

Other types of lending activity at the large banks were also less vigorous than in 1966. Outstanding consumer instalment loans and loans to finance companies were smaller in early December than a year before, and the net increase in real-estate mortgages during the year was about 25 percent less than in 1966.

Holdings of government securities by district member banks rose 12 percent in 1967. Other securities, including municipal and federal agency issues, were up almost 20 percent.

Demand deposits rose faster than in 1966, but time deposits continued as the main source of new funds. City banks, which had a substantial decline in large certificates of deposit in the second half of 1966 when market rates rose above the Regulation Q ceiling, accounted for a large part of the gain. Negotiable certificates issued by major district banks reached a high of more than $2.7 billion at the end of November — exceeding by about a fifth the peak reached in late summer of 1966. Funds acquired through the sale of certificates of deposit rose sharply in the first quarter when yields on other money-market instruments fell well below the maximum rates banks could pay on these deposits. By year-end, however, yields on alternative instruments had risen to levels that severely limited the issuance of bank certificates of deposit with maturities much longer than three months.

In contrast to the substantial shift from passbook savings to personal time certificates in 1966, passbook savings rose gradually in urban areas of the district throughout 1967. Nevertheless, reflecting higher interest rates generally offered on savings certificates, most of the net growth in total personal savings-type deposits was in the form of certificates.

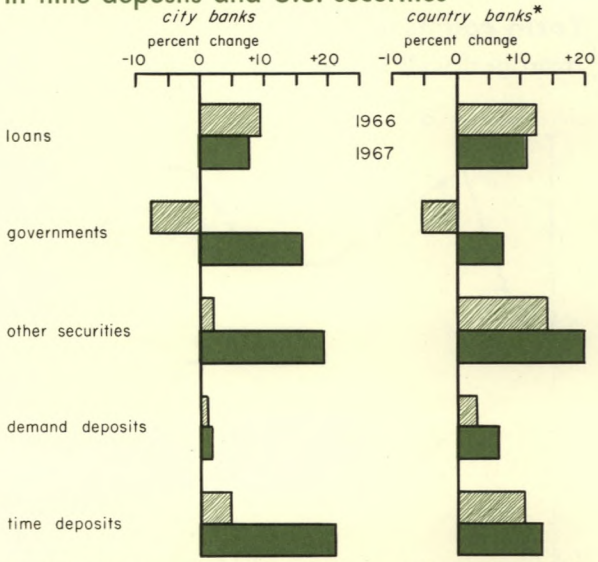
Shifts in the composition of assets toward short-term governments and reduced reliance on borrowed funds marked the partial restoration of bank liquidity positions eroded during the 1965-66 business boom. Even so, the ratio of loans to deposits (often used as a rough measure of bank liquidity) dropped only from 62.8 percent at district member banks in November 1966 to 61.3 percent in November 1967. The decline was attributable entirely to city banks, where credit demands had been strong in 1966. The ratio of loans to deposits at country banks continued to creep higher.

Demand for business loans remained moderate near year-end, but most large banks expected an increase early in 1968. Banks were clearly better prepared to accommodate increased loan demand than a year ago. In the long run, however, growth in loans will depend on expansion of deposits, which, in turn, will reflect policies of the monetary authority and the competitive posture of commercial banks.

Monetary policy action

Monetary policy shifted from restraint to ease as aggregate credit demands were moderated in the fall of 1966. Throughout the first half of 1967, when inventories were being adjusted, the Federal Reserve System tried to stimulate renewed growth in the economy. Reserves were increased substantially to facilitate expansion of bank deposits and credit. In March, the reserve requirements on passbook savings at member banks, and on other time deposits up to $5 million at each bank, were reduced in two steps from 4 to 3 percent. This released about $850 million of reserves, mainly at country banks. In April, the discount rate was reduced from 4.5 to 4 percent. Altogether in the first half of 1967, policy actions supported growth in bank credit of 10 percent on an annual rate basis compared with 2 percent in the second half of 1966.

City banks reported sharpest gains in time deposits and U.S. securities



*Excludes large country banks which reported weekly in both years.

Despite growing labor shortages and upward price pressures in the second half of 1967, the Federal Reserve System continued to provide reserves at a fairly rapid rate. Several factors contributed to the maintenance of a policy accommodating credit growth:

- The desire to accommodate efforts by businesses, banks, and other financial institutions to restore liquidity positions that had dropped to low levels in 1966. Monetary expansion to aid these efforts was considered necessary for the resumption of economic growth.
- Concern that increased restraint would drive market interest rates — already high by historical comparisons — to levels that would again trigger shifts of savers' funds from financial institutions to direct investments. Such a development could have resulted in another reduction in the availability of mortgage funds and stopped the recovery of residential construction.
- The need to help the Treasury finance the government deficit by maintaining reasonably stable conditions in the money market during financing periods. The frequency of these periods left few opportunities for policy changes.
- Attention to international financial problems, and especially the relation of the dollar to other major currencies. Until the British devalued the pound, rising interest rates in the United States were considered a threat to sterling.

In November, immediately after the devaluation of the pound and the concurrent boost in the British bank rate to 8 percent, the Federal Reserve System increased the discount rate from 4 to 4.5 percent. The promptness of the move was necessary to prevent a sudden outflow of funds in response to the higher yields on sterling investments. Although reserves were provided freely to maintain stability in the financial markets, adverse effects of the British devaluation on the position of the U. S. balance of payments further highlighted the importance of stemming domestic price inflation.

Little use of the discount window was made in 1967. Average daily borrowing by member banks in the United States was less than $200 million — the lowest level since 1962. Both the number of borrowers and the amount borrowed were less in the Seventh District than in 1966.

The Federal Reserve Board took steps (1) to extend the margin requirements for loans to purchase and carry listed stocks to lenders other than banks, brokers, and dealers and (2) to bring convertible bonds under the same requirements. Final action on the board's proposals will not be taken, however, until public reactions to specific features of the proposals have been considered. Announcement of the proposed changes appeared to have an impact, nevertheless, especially on the market for convertible securities.

On December 27, the Board of Governors announced an increase of one-half percent in reserve requirements against demand deposits of more than $5 million at each member bank. The increase, effective in January 1968, brought reserve requirements to 17 percent for Reserve City banks and 12.5 percent for all other member banks. The board's action, taken to resist inflationary pressure and help reduce the current account deficit in the U. S. balance of international payments, affects about 2,000 banks and increases required reserves by more than a half billion dollars.

Interest rate trends

The year was marked not only by wide swings in interest rates but also by unusual shifts in the pattern of rates. After reaching lows in February, yields on long-term corporate and Treasury bonds began a fairly steady climb that regained 1966 peaks by midyear. By late fall, they had increased more than a half percent further.

In late October, the Treasury sold $1.7 billion of seven-year notes at 5.75 percent — a new record interest cost for Treasury coupon issues. Rates on short-term governments, which had declined sharply through the spring, subsequently rose but remained below yields on bonds.

The steep climb in long-term rates reflected strong demands on the capital markets by corporations and state and local governments. Sales of new corporate and municipal securities exceeded the record total for 1966 by about 30 percent.

Sales of corporate securities were boosted by a number of factors, including accelerated tax payments, lower retained earnings, and the desire of managements to improve liquidity. Businesses used part of the proceeds of security sales to pay down bank loans and increase cash assets against the contingency that credit availability might shrink again.

High interest costs did not appear to deter security offerings through most of 1967. But late in the year, when rates on new high-grade corporate bonds exceeded 6.5 percent and rates on new

municipals approached 4.5 percent, some important proposed issues were postponed, most commonly in the municipal sector.

Mortgage rates declined appreciably in the first half but moved gradually higher throughout the rest of the year. Some financial institutions raised their basic mortgage rates after the November increase in the discount rate.

The persistent decline in short-term interest rates through mid-June was due in part to the expansive monetary policy. But another factor was the demand for short-term investments at a time when market supplies of short-term Treasury and agency issues were declining. Expectations of still higher long-term interest rates resulting from heavy private and public demands caused some investors to place funds in short-term securities while they awaited developments. As temporary cash surpluses gave way to large deficits in the second half, sales of short-term governments increased. Bill rates rose rapidly but remained well below yields on intermediate and long-term bonds. From a low of 3.4 percent in June, yields on three-month bills climbed to almost 5 percent in mid-December.

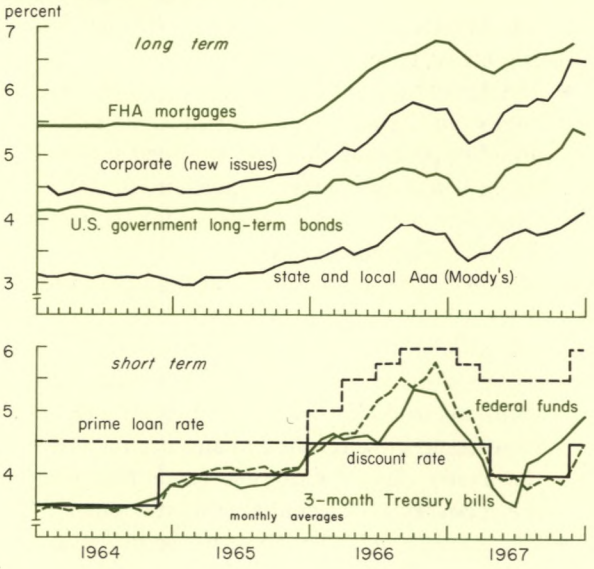
Continued provision of reserves by the Federal Reserve System, coupled with moderate loan demand, allowed most commercial banks to maintain fairly comfortable reserve positions throughout 1967. As a result, the federal funds rate did not move significantly above the discount rate, as it had in 1966. Moreover, after a half-percent reduction early in the year, the prime loan rate remained unchanged at 5.5 percent until after the devaluation of the pound and the boost in the U. S. discount rate in November when the major banks raised their rate to 6 percent.

Will 1968 repeat 1966?

Doubts about the viability of the business expansion in the fall of 1967 were largely resolved by year-end. After the settlement of important strikes in October, industrial production, new orders, employment, and personal income all increased sharply. Despite unused capacity in some basic industries, most labor markets were tight — especially in the Midwest — and the broad uptrend in prices of manufactured goods appeared to be gaining momentum.

Spending by all major sectors — government, business, and consumers — was expected to rise appreciably in the opening months of the new

Long-term interest rates
turned up sooner and rose further than short rates



year. The prospective federal deficit, although moderated by programs to cut nonessential spending, continued to loom large. Demands of corporations and state and local governments for long-term funds showed little sign of abating. Increases in business loans, mortgages, and consumer credit (all of which were relatively slow in 1967) appeared likely to accelerate.

The demand for goods and services indicated for 1968 exceeds the capacity to supply them. Some prospective borrowers will probably not be able to obtain credit on acceptable terms, and some prospective buyers may be deterred by higher prices and limited supplies.

A possible alternative would be direct controls over prices and materials, as in World War II and the Korean conflict, thereby reducing the vital role of market forces in allocating goods and services. Much more in keeping with this country's traditions, however, is the use of broad measures to restrain credit expansion and, through increased taxes, to siphon off part of the excess demand created by income rising faster than potential output. In keeping with such a policy, the year-end increase in reserve requirements on demand deposits marks a major step in modifying the expansionary monetary policy pursued through most of 1967.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