

AN OVERVIEW OF THE KANSAS CITY ECONOMY

Remarks of  
Roger Guffey  
President, Federal Reserve Bank of Kansas City

Delivered January 13, 1977  
As part of the Pembroke-Country Day School  
Mini-Course in Kansas City History

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### I. INTRODUCTION

In this, the next-to-last session of your short course, our topic is the economy of Kansas City today. We will be considering just what those factors are that justify Kansas City's existence as a center of economic activity. But I want to do more than explain why Kansas City is still here, for Kansas City does not just exist. It thrives in exceptionally good health in comparison with most other cities. In my remarks, therefore, I will emphasize the importance of the Kansas City people, as leaders, managers, and productive workers, in making the most of the metropolitan area's economy.

In a nutshell, then, I am going to be talking about:

- A. Kansas City's resource base, and
- B. What we have done with it.

### II. FROM THE RESOURCE BASE TO THE ECONOMIC BASE

#### A. Early History

Economic geography best explains our city's origin, as your lessons in the history of Kansas City have made clear. Let me review that economic history a bit. As you recall, location was the key to the founding of Kansas City. But it takes people to develop any resource, and it took individuals with keen senses for current and future business to put Kansas City's location to advantage.

In general, one can say that, when the resources of a particular region are producing something that brings in dollars from outside that region, the resource base has been converted into an economic base. For example, a region may contain rich deposits of coal as part of its resource base. But only when this coal is mined and sold outside the region does "coal mining" become part of that region's economic base.

Kansas City's location was its original resource base, developed into an economic base by those who saw in this location a prime opportunity for selling services to outsiders. At the beginning, these services were those of the fur trader and river boater. Trading and transportation services were further developed into Kansas City's economic base as pioneers used this furthest-west river port as an outfitting post before journeying over land. With the coming of the railroads and agricultural development of the surrounding region, Kansas City's role as a center of commerce, with emphasis on points west, continued. The development of the extractive industries west of here also was responsible for encouraging flows of goods and services through Kansas City. Service to the region remained the key source of dollars from the outside - the economic base of Kansas City.

I want to stress this point: Kansas City's economic base, historically, has been in service activities tied to regional economic development and activity. Over the years, money has flowed into Kansas City because of its ability to provide transportation, distribution, communication, finance, trade, and other services to the region. Thus, the economic base of Kansas City, and therefore the Kansas City economy, is closely tied to the economic base of the region it serves. This regional character of the Kansas City economy is very apparent to those of us who lead regional

operations. The Federal Reserve Bank of Kansas City, for example, serves seven states.

Now, what about the role that people played in the development of Kansas City as a center of commerce? You have heard about some individual contributions, and have read about others. I do not have time to review any more early economic history, but suffice it to say that Kansas City did not just "spring up." It took leadership, hard work, and not a little political finagling at times to develop the locational advantages of this place in early years.

I have emphasized the historical importance of the service industries in Kansas City's economic history. But the Kansas City metropolitan area, as it is presently defined, also included some goods-producing activities in its economic base in early years. Most of us now live on what was once farmland. Much of the produce of this farmland was sold through Kansas City outlets to outsiders, and thus agriculture was once an important direct contributor to the economic base of what is now considered greater Kansas City.

#### B. Recent History

Food processing has been extremely important to Kansas City's economy over the years, as Mr. Sosland has explained. Meat and cereal industries grew up around the flows of livestock and grain. The packers and millers added their contributions to the economic base of Kansas City, and the flows of dollars from the outside grew. Although the food processing industries are not properly considered service industries, they too had regional ties because of their agricultural basis.

With the passage of time, agricultural business prospered along with regional agriculture. And, as the Kansas City economy matured, manufacturing firms of

many types chose Kansas City as home. This has served to broaden the economic base of Kansas City, providing it with diversified sources of outside dollars, and, therefore, more economic stability.

Did manufacturers choose to locate in Kansas City by chance? Hardly. Again, I return to my points about Kansas City leadership and the productivity of Kansas City workers. Vigorous promotion by the business and civic leaders of Kansas City were largely responsible for bringing manufacturers here. These manufacturers were told about the locational advantages, to be sure. But they also learned of the availability of hard-working people with the work ethic of the Midwestern farmer. Indeed, enormous advances in agricultural productivity did free up a whole generation of farm-born youth who came to Kansas City and other cities, eager to work.

The Kansas City leaders did not stop with encouraging manufacturers to settle here. They went after the convention business, too. The national political convention history of Kansas City goes back 76 years. Early on, the business and civic leaders of Kansas City recognized the dollar of the tourist and conventioneer as important.

#### C. Today's Economic Base

Location continues to be the single most important natural resource to Kansas City. Unlike the mining town that becomes a ghost town when the vein runs out, Kansas City has grown as its developers have carefully put its inexhaustible mother lode of location to use.

The economic base is still heavily in transportation, distribution, and trade activities. Water transportation is still important, but Kansas City is also a hub for truck, rail, and air transportation. Agricultural business continues to help drive the Kansas City economy. But so, too, does the manufacture of autos, steel products,

appliances, drugs, chemicals, envelopes, and so on. Goods and services produced in or channeled through Kansas City are marketed internationally. People choose Kansas City as a place to transact business and a place to visit. The Federal and state governments maintain large offices in the city.

In summary to this point, Kansas City's sources of outside dollars are many and varied. This diversified economic base, with the regional ties, usually has meant insulation from the peaks and valleys of the national business cycle, although this last recession happened to hit just about every one of our basic industries pretty hard. In particular, and somewhat unusual, a marked decline in farm income, and therefore agribusiness, coincided with the fall in demand for autos, air travel, and other goods and services that make up the economic base of Kansas City. Even so, we weathered the most severe recession since the '30's in good shape, with the local economy rebounding faster than that of the nation as a whole.

Without its economic base, Kansas City would be empty. Yet, the economic base is the source of less than half the economic activity in the city, and in many respects, the bigger half is the more interesting, and it is to it that I now turn.

### III. FROM THE ECONOMIC BASE TO THE ECONOMY

The economic base of a city is said to be its source of primary income. All remaining income generated within a local economy depends on the spending and respending of this primary income. This remaining income or economic activity is sometimes called "secondary," but it is by no means secondary in importance to the citizens. Nonbasic economic activity includes, for example, medical services that none of us would want to do without. Kansas City is unique in many respects, but

what really sets it apart from other cities is in its attention to the nonbasic economy. And it is here where leadership becomes such an important factor. I will give a few examples, some, by now, familiar to you from earlier classes, so I will be brief:

A. Parks and Boulevards

It is easy to forget to mention the importance of open spaces and natural settings to a city's character. It is easier still to forget that this space is not free—it costs money to build and to maintain. There is also a cost in the form of foregone opportunities associated with preventing open space from being developed into business, industrial, or residential uses. Superficially, it might seem that the city would be better off using park and boulevard space for "income-producing" property. But it's this kind of superficial reasoning that has resulted in the ugly cities of our country. Fortunately, Kansas City leaders of far vision made these commitments of resources for recreation and beautification, and the Kansas City people have stood by their decisions.

B. Retail Sales and Residential Construction

You have visited the J. C. Nichols Company, and you know the Country Club Plaza was the Country's first shopping center. Thinking this big and seeing such a thought to fruition was a remarkable achievement.

C. Arts and Sciences; Education

One might not think of museums, art galleries, libraries, and schools as economic activities. But they are, of course, for they employ people and use other resources. They are part of the nonbasic economic activity of the city. Nonbasic, yes, but so important in making the city what it is. While our business and civic

leaders have done much in this category, I cannot resist saying that I wish they had done more, most especially in building a university of international standing. But that work is still to be done.

D. In recent years, the Sports Stadia, the Kansas City International Airport, and Crown Center, to name just three.

To be sure, the leaders who developed the plans for these projects had outside dollars partly in mind. But that was not the only consideration. It might be trite to emphasize the liveability of our city, but it's worth remembering that it could have been otherwise.

Other cities, such as Detroit, Cleveland, and Los Angeles, have their economic bases, of course. And other cities have grown faster than Kansas City in recent years. While Kansas City has its problems, its relatively stable economy has held it in good stead and it has grown in a more balanced manner than might have been possible otherwise.

I am biased, of course, but I think that Kansas City spirit and Kansas City pride are the major reasons why Kansas City is a nice place to live, not just a centrally located city where one can scratch out an existence, no matter what it amounts to in dollars.

I may be biased, but we have ample evidence of the attractiveness of our city to businesses and professionals. Just recently, for example, the Research Division of the Federal Reserve Bank of Kansas City hired two economists: one who chose our city over his New York City home, and the other who chose Kansas City over his Los Angeles home. This despite the fact that they could have made more money at home—and that's the point: you have to pay people more to put up with the

disadvantages of places less desirable than Kansas City.

As a final example, a company recently moved here from Newark, New Jersey. They were amazed with their gains in productivity, thanks to the more industrious Midwestern worker. So they actually made money by moving to a better place to live—Kansas City.

All of this ties in with the resource base that Kansas City enjoyed, and what our leaders and workers have done with it. Because, when it comes to resource economics, it isn't what you see that is what you get, but what you do with what you have.

#### IV. KANSAS CITY'S ECONOMY IN THE FUTURE

I know that it will be Mr. Hockaday's task to outline Kansas City's future, but without an economic basis for this future, there will not be any. So, I want to spend just a minute or two on the longer run economic outlook for our city.

It is, in a couple of words, very bright. This seems to be a good week to talk about energy, and Kansas City's role as a provider of services to energy-producing points west is a very likely prospect for growth. Our central location and abundant supply of water and energy (except natural gas this week) will continue to attract industry, which needs both. The same services that are now strong seem likely to grow stronger, perhaps especially financial services, where a real technical change (EFT) is underway. As the breadbasket of the country and the world, the region's agricultural business is going to get even better. We have just begun to realize our tremendous comparative advantage in agricultural production. As a place to visit, we are getting even better.

Surprisingly, Kansas City's advantages are not known to all. Those of you who leave here, temporarily I trust, for college or career beginnings can serve as Kansas City ambassadors. I am not worried that you will do so, for if you have seen the rest of the world, you know—all things considered—how good we have it here in Kansas City.

Table 1  
 KANSAS CITY PRODUCTION OR NONSUPERVISORY WORKERS  
 ON NONAGRICULTURAL PAYROLLS, BY BROAD INDUSTRIAL CLASSIFICATIONS,  
 1958, PEAK YEAR SINCE 1958, AND 1974

Type of Industry	Number of Employees in Thousands		
	1958	(Peak Year)	1974
Total nonagricultural employment	370.8	549.6 (1973)	546.5
Mining	0.8	0.9 (1959)	0.6
5% - Contract construction	22.8	27.5 (1972)	24.5
Manufacturing	99.4	131.8 (1969)	116.2
30-35% } Durable goods	51.5	77.8 (1969)	67.0
Nondurable goods	47.9	54.3 (1967)	49.2
10% - Transportation and public utilities	41.5	51.8 (1974)	51.8
Wholesale and retail trade	94.0	138.5 (1973)	138.0
25% } Wholesale trade	33.5	44.2 (1974)	44.2
Retail trade	60.5	95.1 (1973)	93.8
7% - Finance, insurance, and real estate	24.6	36.4 (1974)	36.4
Services	46.7	99.0 (1974)	99.0
18% } Government	41.0	80.0 (1974)	80.0
Federal government	n. a.	24.0 (1971)	22.6
15% } State and local government	n. a.	57.4 (1974)	57.4

NOTES: See notes (a) and (b) to Table 2.

SOURCE: See source to Table 2.

*Mfg. - 20-25%*  
*trade - 25%*  
*Service - 18%*  
*Govt. - 15%*  
*Construction 5%*  
*transp. 10%*

Table 2  
 KANSAS CITY PRODUCTION OR NONSUPERVISORY WORKERS  
 IN MANUFACTURING INDUSTRIES, BY INDUSTRY,  
 1958, PEAK YEAR SINCE 1958, AND 1974

Type of Manufacturer	Number of Employees in Thousands		
	1958	(Peak Year)	1974
Total manufacturing employment	99.4	131.8 (1969)	116.2
Durable goods manufacturing	51.5	77.8 (1969)	67.0
Lumber and furniture	3.1	3.3 (1959)	2.4
Stone, clay, and glass products	3.7	5.2 (1966)	4.9
Primary metal industries	6.1	6.2 (1969)	6.1
Fabricated metal products	7.2	9.4 (1968)	7.5
Machinery, except electrical	4.6	11.2 (1967)	10.0
Electrical equipment and supplies	3.4	20.3 (1970)	18.4
Transportation equipment	12.4	15.4 (1968)	12.0
Motor vehicles and equipment	11.9	14.6 (1968)	11.6
Nondurable goods	47.9	54.3 (1967)	49.2
Food and kindred products	16.9	17.5 (1961)	10.8
Meat products	5.7	6.2 (1960)	1.6
Apparel and textile products	7.4	7.4 (1958)	5.3
Paper and allied products	4.1	5.4 (1968)	4.9
Printing and publishing	9.7	15.8 (1973)	15.5
Chemicals and allied products	5.1	9.8 (1969)	6.7
Petroleum and coal products	2.7	2.7 (1958)	2.0

NOTES:

- (a) The 1973 and 1974 figures cover Cass, Clay, Jackson, Platte, and Ray Counties, Missouri; Johnson and Wyandotte, Kansas. Earlier figures cover fewer counties, but the changes are still indicative of employment trends in the area.
- (b) In general, employment peaks in 1973 and 1974 are indicative of industries with growing employment (1974 was partly a recession year). Industries that peaked earlier are probably either stable or declining employment industries. Declining employment is not necessarily indicative of declining production, however, especially in goods-producing industries where productivity has risen markedly.

SOURCE: U. S. Department of Labor, Employment and Earnings, States and Areas, 1939-74, pp. 395-397.