THE OUTLOOK FOR THE GENERAL ECONOMY IN THE METROPOLITAN ST. LOUIS AREA

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Though I always approach with trepidation such excursions as I undertake into the domain of the after dinner speakers, and this one is no exception, I nevertheless find a sort of nostalgic pleasure in again rubbing elbows with, and now facing, an organization of real estate men. In my younger and, dare I say, more venturesome days as a practicing lawyer, it was my great good fortune to count among my most valued friends and clients some of your real estate colleagues in the Western Metropolis of Missouri, Kansas City. I hope you will pardon this brazen reference to Kansas City when I am here for the purpose of talking about St. Louis. Believe me, I shall not essay a comparison of the two cities, as Life Magazine so brashly and, as I think, so inadequately did recently. My only purpose is to ingratiate myself a bit with this audience by boasting that in another place and at other times I was no stranger to real estate men. I even knew some who were not my clients, and they all, clients and otherwise, generally seemed to prosper and get along right well. It is truly remarkable. What handicaps real estate men can and do overcome!

It is extraordinarily difficult for one to make accurate generalizations about the area in which he lives and works. One's enthusiasm for the community he calls "home" and his aspirations for its future make it impossible to speak without some bias about it. Indeed, if I have any qualification for appearing before you this evening to discuss the subject assigned me, it is that I am a life-long Missourian, that I have always been, so to say, within eyesight and earshot of St. Louis, and yet have actually lived here only a little more than three years. I have thus been able to view, I hope objectively, and from not very far off, the great progress which this area has made and - let's face it - the rise of some problems which press for solution.

The easiest way to gauge the economic future of this metropolitan area is to form some notion of the outlook for the United States as a whole and to assume that we in the St. Louis area shall share in the gains which appear in the offing. Though there is merit in such an approach, we shall see that this way of looking at the future must be taken with some caution, for St. Louis could conceivably fail to obtain its share of the gains. Nevertheless, a temperate projection of recent growth rates is cheering, to say the least.

Over the half century 1900-1950 the real national product of the United States increased five fold as the population doubled, so that per capita output of the country increased two and one-half times. During this same period the total volume of human effort entering into productive activity increased by 80 per cent. Thus, the great gain in production was achieved with an increase in labor input well below the increase in population. Economists unanimously testify to the fact that such remarkable gains were the result of greatly increased productivity; that is, in the average physical output per man-hour of work done. As the years went on, the effectiveness of human effort increased to such an extent that in the decade of the 1940's output per man-hour of labor input was nearly three times what it had been fifty years before. 1/ This increase in productivity, largely the consequence of technological innovation and improvements in managerial control, shows no sign of slackening and may well continue indefinitely.

More output for relatively less effort has meant a sharp rise in the real per capita income of the people of the country. Between the boom year 1929 and the boom year 1950 the per capita income of our people, after taxes and measured in dollars of constant purchasing power, rose by something over 40 per cent. Again, there seems no foreseeable end to increases in income. During the past three years the people of the United States have achieved a level of material prosperity which a few years ago was no more than dream stuff. In 1951 the gross national product, i.e., the sum total of the value of goods and

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1/ From Frederick C. Mills, Productivity and Economic Progress, National Bureau of Economic Research, Inc. Occasional Paper 38, 1952. These data are summed up in the following table found on page 2:

Real Gross National Product, Population, Labor Input, and Productivity
United States, by Decades, 1891-1950

Decade	Gross national product (billions of 1929 dollars)	Gross national product (relative)	Population (relative)	Total man-hours of labor input (relative)	Output per manhour (relative)
1891-1900	294	100.0	100.0	100.0	100.0
1901-1910	455	154.8	120.6	126.1	122.8
1911-1920	603	205.1	143.4	140.5	146.0
1921-1930	838	285.0	165.4	145.1	196.4
1931-1940	843	286.7	181.9	122.8	233.5
1941-1950	1,493	507.8	201.4	180.5	281.3

services produced by the people of this country, exceeded $300 billion for the first time. This figure rose by about $20 billion in each of the next two years. Preliminary estimates indicate that the gross product for the past year was $367 billion, very close to the magical $400 billion mark which in the 1940's we thought might be achieved by 1975. It should be remarked, too, that since 1951 consumer prices have remained very nearly stable, so that the real gains to the people of the country in this recent period have continued substantial.

I do not mean to tell you this evening that American economic growth will forever continue uninterrupted. It is to be expected that the national economy will experience some setbacks. There will inevitably be periods of economic slackening and even recession, of business readjustment such as we have been going through for the past year; but there is reason to believe that we are developing the means of successfully preventing the wide and violent swings in economic activity which used to beset us.

Considering, then, the probable over-all trends in the economy, we in America look forward confidently to future growth. The question before us this evening, however, is this: Shall we in the metropolitan area of St. Louis reap the fruits which an expanding economy with its spectacular increases in productivity will provide? At the risk of going over some ground that is familiar to many of you, I suggest that we review briefly the historical position of St. Louis in the national economy.

A century ago there was no question in the minds of her citizens that St. Louis would be the first city of the Midwest, if not of the entire country. Providentially situated at a point where the trade of the upper Mississippi River terminated and that of the lower river began, St. Louis held a controlling position.[2/] It was at St. Louis that the river traffic broke and cargoes were unloaded, reclassified, and reloaded for further shipment. St. Louis was the northern terminus for the large steamboats of the lower river and the southern terminus for the smaller steamboats of the upper river. There seemed little doubt that the commerce of the Mississippi Valley would continue in a predominantly north-south direction and that it would hinge on St. Louis. Further, it appeared that the future physical expansion of the country would take place with St. Louis, a natural gateway to the West and Southwest, as the base of operations.

What happened to the primacy of St. Louis is well known to you all. The advent of the railroad meant that Chicago, with its more favorable geographical location for east-west traffic, could break the commercial monopoly of St. Louis in the upper Mississippi Valley. Itself possessed of facilities for water transportation, Chicago's chief problem had been to tap the rich hinterland. Yet despite the economic losses sustained by St. Louis and the impetus given to the growth of Chicago as a result of the Civil War, St. Louis by a narrow margin remained the third city of the country in the census of 1870. In the 1870's, however, Chicago achieved trade supremacy in the upper Mississippi Valley, and St. Louis was forced to look to the area lying roughly in the quadrant

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2/ See Wyatt Winton Belcher, "The Economic Rivalry Between St. Louis and Chicago, 1850-1880," New York: Columbia University Press, 1947, especially pp. 11-54 and 193-206.

to the southwest for her future markets. This "new" area, to which the prosperity of St. Louis was henceforth tied, grew less rapidly than did the rich Northwest, and St. Louis could only fall behind her erstwhile rivel, Chicago.

The point I wish to make is this. Even thus restricted, St. Louis for more than three decades enjoyed a kind of golden age. Her financial institutions provided much of the capital necessary to the growth of the young cities of the Southwest such as Kansas City, Oklahoma City, and Dallas. Because of her central location St. Louis was an ideal spot for many of the great wholesalers, and even as the era of the steamboat merged into the railroad age, St. Louis remained a primary transportation center. That her growth was more than merely satisfactory is evidenced by the fact that St. Louis approximately doubled in population between 1880 and 1910 (to almost 700,000) and during these thirty years remained the fourth city of the country.

At about the time of the first World War St. Louis appeared to have lost something of her forward momentum. In large part this can be accounted for by the rise to prominence of other cities of the Southwest. As these cities grew, firms located in them took over much hitherto regional business, and St. Louis' area of dominance, her immediate trade area, was considerably restricted. This area, it might be added, has been one of rather limited economic advantages with a per capita income well below the national average. This factual situation leads to the conclusion that St. Louis' recent growth largely reflects her retained and remaining significance as a national industrial and commercial center.

How satisfactory has this growth been? A recent study by the Metropolitan Plan Association gives us at least a partial answer. Over the past three decades the population of the area has increased by 48 per cent, substantially less than the average of the 21 metropolitan areas with which St. Louis was compared. Significantly, the St. Louis rate of increase was only slightly less than that of the older, larger areas, but it was much less than that of the newer cities in the South and Southwest, many of which are effective economic competitors of St. Louis. It is well known, of course, that the population of the City of St. Louis proper rose by just over 6 per cent in the 1920's, actually declined somewhat in the '30's, and rose less than 5 per cent in the '40's. Meantime for these same three decades the population of St. Louis County increased, respectively, 110 per cent, 30 per cent, and nearly 50 per cent. Today the city proper's population constitutes only about half of the population of the metropolitan area, and at the last census the St. Louis metropolitan area was ninth in the country with those of Washington, Cleveland, and perhaps Baltimore pressing close for that position.

Income-wise, residents of the St. Louis area seem to have gotten just about their share of the national growth. In 1952 per capita income of our residents was 22 per cent more than the national average as compared with 25 per cent above the national average in 1929. On the other hand, average income of St. Louis household units was somewhat below that of the twenty comparable metropolitan areas, and in terms of real income St. Louis was eleventh among nineteen major areas. The relatively low standing of the St. Louis area in this respect indicates a substantial amount of employment in low-value-added industries, i.e., industries in which the manufacturing process contributes a relatively small portion of the final value of the product. In general, wages tend to be low in such industries.

A hopeful sign for the future, however, is to be found in the fact that the major industry groups in the St. Louis area which have increased plant capacity at high rates are the durable goods and petrochemical groups, which by contrast can pay higher wages. These industries include primary and fabricated metals, ordnance, non-electrical machinery, transportation equipment, petroleum products, and chemicals. Industrial growth in these lines seems to have been more than satisfactory. St. Louis ranked well toward the top among major areas in dollar value of manufacturing building contracts awarded during the post World War II years. Employment in the St. Louis metropolitan area has kept up with the national rate of increase since 1940. All in all, St. Louis industry has grown at a rate at least equal to, and probably slightly higher than, the rest of the nation.

We have already noted that the per capita income of the immediate region served by the St. Louis area is considerably below the national average. Like the metropolitan area, the surrounding region has for twenty-five years just about maintained its position relative to the national average of per capita income. The general paucity of resources in the surrounding region makes it mandatory that St. Louis increase its ties with the national economy if it is to do more than maintain a moderate rate of growth.

One could spend a long time talking about the way in which St. Louis is increasing its ties with the national economy. Suppose we take just an example or two. Since 1920 petroleum refining has become more and more important to this area. Crude oil comes from the Southwest and West in great volume to be processed here. Part of the end products of the refineries of Standard, Shell, Socony-Vacuum, and Sinclair are sold in the local market, but a large part goes by pipeline and barge to points as far distant as Minneapolis and Cincinnati. Consider another striking example of the way in which the economy of this area meshes with that of the nation. Now under construction at Granite City is the plant of the A. O. Smith Corporation, which will produce at least 40 per cent of the passenger automobile frame requirements of Chevrolet. The inter-relationships are well illustrated here. From southeast Missouri and Minnesota comes iron ore which is reduced with the aid of coal from West Virginia and Illinois. Fabricated steel from the Granite City Steel Company will be made into frames which will then be used in assembly plants not only in St. Louis but also in points as far away as Janesville, Wisconsin, and Van Nuys and Oakland, California. Without prompting, you can think of almost endless similar examples of the way in which St. Louis, taking advantage of its central geographic location and its first-rate transportation facilities, serves the nation as manufacturer and merchant.

Should the trends persist of which these examples are typical, it is a fair guess that St. Louis will continue to show an over-all economic development comparable to that of the nation as a whole. But the future is not indubitably clear, certainly not so much so as we would like to have it. After all, a city must perform certain functions with a certain degree of efficiency if it is but to maintain itself; and it must perform these functions with greater efficiency and in addition take on new functions if it is to grow. In general, these functions are of two types, which we may call external and internal. Let me interpolate here with some emphasis this caveat. I am not talking about functions of municipal government alone. I am talking about the aggregate of all the services and facilities necessary to the well-being of urban dwellers, some governmental and some not. The external functions are those which connect the city with the rest of the economy. To these we have referred. The internal functions, on the other hand, are those which the city must perform simply to enable its people to carry on their day-to-day activities. There must be, for example, adequate housing for workers, a transit system sufficient for the easy movement of the population to work and to shopping and recreational facilities; there must be adequate police and fire protection, and so on. Up to the present, St. Louis seems to be performing very well its external functions, but one cannot be so sure about the internal ones. The interdependence of these two types of functions will be apparent to every thoughtful observer. If there is faltering in the one, the other suffers. The real tragedy occurs when external factors are favorable but growth and development are inhibited by failure to perform satisfactorily basic and essential internal functions. The tragedy lies not only in the stunting of economic growth but also, and no less important, in the failure to satisfy worthy human wants.

I recall in this connection the remarks of a friend who for a long time actively participated in the work of attracting new business firms to one of our southern states. Time after time, as he was reciting the advantages of a particular city, its strategic location, its transportation facilities, its low property tax rate, and so on, an executive would interrupt him with this question: "Will this be a good community for our people to live in? The tax rate is not so important to us as the kind of services your community will provide for our workers and administrative staff."

In our highly competitive American economy we have seen that the individual firm must employ an increasingly productive labor force if it is to keep pace. To grow in productivity that labor force must be adequately housed, and it must be able to make its way to and from work without great difficulty; the young must be properly schooled, and the family must have access to uncrowded recreational facilities; police and fire protection must assure physical safety. If these and other things making up the whole environment are not conducive to general well-being, output per worker will fall and unit costs rise. Then existing firms may be forced to leave the community, and prospective firms will be repelled.

Happily, in the City of St. Louis, as in some of the incorporated suburban areas, many of these internal functions are being performed in a satisfactory manner. St. Louis furnishes cultural and recreational facilities renowned for their excellence. Many of its municipal services are provided efficiently and well. Yet the latest census figures indicate that among cities of half a million population or over only New Orleans has worse housing conditions as measured on a basis of facilities, occupancy, and maintenance. The percentage of the city classified as blighted or substandard areas is exceptionally high. With over 90 per cent of the available land already developed, industrial and commercial sites in economic locations in the city proper are scarce. Increasing traffic congestion has become a daily topic of conversation around luncheon tables.

Nor are the suburban communities without major problems which may in time become serious deterrents to the economic growth of the metropolitan area. The proliferation of incorporated areas has led to a situation in which a few strong municipalities furnish satisfactory governmental services, while many weak ones struggle to keep up with the routine expenses of administration. Where the incorporated units are well below optimum size for efficient operation even the basic protective services suffer, to say nothing of suburban traffic congestion, lack of adequate recreational facilities, and failure to maintain effective zoning, building code, and subdivision regulations.

I do not presume this evening to suggest solutions to these problems which have long since become familiar to you. Able men, some of whom have doubtless broken bread with me this evening, have worked long hours to resolve these difficulties. The Metropolitan Plan Association, the St. Louis City Plan

Commission, the St. Louis County Planning Commission, and other interested groups have formulated programs for positive action.

It has been my purpose only to discuss the broad outlook for the general economy of the metropolitan St. Louis area. In sum, that outlook is for an expansion which should provide substantially rising levels of living for an increasing population, on the assumption that the productivity of our people is not permitted to fall by reason of failure to perform the internal functions of an urban center.

I cannot conclude my remarks, however, without some reference to the trends which you, as real estate men, may reasonably expect. If St. Louis moves forward in step with the national economy, the Realtors of this area may anticipate a more than proportional expansion in real estate activity. Your guess is as good as mine regarding the probable population of the St. Louis metropolitan area in, say, 1975. It will almost surely be well over two million. This in itself means a persistent growth in residential construction and in the shopping centers and commercial buildings which this implies.

Your attention to another factor is invited. There are reasons for believing that the housing market <u>may grow faster than the economy as a whole</u>. The reason for thinking so lies in the fact that over the past twenty-five years there have been two strong trends in the American housing market, neither of which shows any marked signs of reversal: (1) astonishing as it may seem in the light of the building boom of the last eight years, the standard of housing has not kept up with increases in real income, and (2) there has been a pronounced shift from rental of non-farm dwellings to owner occupancy.

The first of these trends is the more difficult to measure, but such evidence as we have is convincing. A recent study by Fortune Magazine concluded that, although the number of high-income families has increased since the 1920's, the number of high-value houses has actually decreased. On the other hand, as the number of families in the lowest-income bracket has decreased, the number of housing units in which, by 1929 standards, this group should have been lodged has increased considerably. The great middle-income group of families ($4,000 to $7,500 of annual income measured in 1953 dollars) has trebled since 1929, but houses of the value in which this group lived in the earlier year have increased by less than a third.[3/]

Nor is this all. The average age of houses has tended to rise. The number of houses ten years old and less was greater in 1953 by 3 1/2 million units than it was in 1930, but the number of houses thirty years old and over was greater by 13 million units. An old house is not necessarily a bad house, but the presumption is against it in favor of a new one so far as most of the amenities except space (inside and out) are concerned.

There is yet another way of looking at the matter. The total number of units started (and presumably built) in the thirty-two years from 1920 to

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3/ Gilbert Burck and Sanford S. Parker, "The Insatiable Market for Housing", Fortune, (February, 1954), pp. 103-104.

1951, inclusive, was about eighteen million. On the other hand, the number of households appears to have increased by twenty-one million, or three million more than the number of new permanent units built. (Meantime there was some destruction of residential units.) The difference can be accounted for in some part by the addition of trailers and temporary units, in large part by net conversions and alterations of existing structures, and also in part by differences in the data, since the data on housing starts refer to nonfarm units only whereas the household data include both nonfarm and farm households.

How may we account for this apparent failure of Americans to maintain housing standards of thirty years ago? There may be a developing preference for smaller, easier-to-keep houses which, in combination with electrical gadgets, makes more free time available to the housewife and her spouse. But here we come up against the demonstrable fact that more and more families have taken on the time-consuming obligations of home ownership. A better answer is probably to be found in the greater percentage rise, since the 1920's, in the price of houses than in the prices of other things which the consumer buys. Too, a house represents the largest single outlay which a family ordinarily makes. Financing thus becomes a major consideration, and if institutional arrangements are such that financing of low-cost homes is favored, low-cost homes will be built. Federal influence on the urban residential mortgage market has encouraged building of the "cheap" house.

This brings us to the second of the continuing trends mentioned above. In 1900 only a little over one-third of non-farm residents owned the dwellings in which they lived; the nation was definitely a nation of renters. By 1920 something like two-fifths of the urban families owned their homes, and during the next twenty years this proportion did not change much. In the decade of the 1940's the number of owner-occupied urban units rose by over 70 per cent, and since the years immediately preceding World War II the proportion of total consumer spending for the acquisition of homes has roughly doubled. The increase in owner occupancy took a substantial jump in 1950, though since early 1951 the proportion owning homes has remained at about 54 per cent.

The rise in owner occupancy is the result of many forces of which two are predominant. A major factor has been the long period of sustained high levels of income with accompanying large increases in liquid asset holdings and distribution changes in favor of lower-income groups. No less important has been the availability for urban real-estate financing of continuing supplies of credit on moderate terms. Urban mortgage debt has more than trebled since the end of 1945 and today stands at approximately $65 billion.

It is a reasonable conviction, I think, that the people of the United States will, in the long-run, raise their standard of housing to the extent that they have raised their other living standards. It seems likely that mortgage terms will become no harder. In short, we may expect a continuing high level of residential building activity. As some families move into new houses, others will move to better existing properties. This all means that assuming the growth and development of this metropolitan area, business will be good indeed for St. Louis

Realtors in the foreseeable future.

With a smile I express the hope that prosperity and expectations of its continuance will not cause you to lose sight of the role which groups like yours must play in the growth and advancement of this area. We shall look to you in a real and substantial sense for leadership in revitalizing an integrated program of improvement in the metropolitan area. Plans on drawing boards do no good until brought to fruition. Hopes for the future, unimplemented, lead only to disillusionment. The translation of plans into action will mean a reinforcement of our internal structure, to the end that, as a high-productivity, low-cost community we can attract and keep business enterprises which strengthen and expand our ties with the national economy. Our outlook will then be not for mere moderate growth but for a great surge forward in a national economy which has limitless possibilities for expansion.

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