Southern Cities and How They Grew

Around the middle of 1952—probably late August or early September—a seemingly commonplace event occurred in some Sixth District city. We don't know exactly what that event was. Perhaps a young girl, recently graduated from a rural high school, stepped off a bus and started her search for a job in the city. A newly-assigned branch manager of a New York-based firm may have moved his family into a comfortable suburb. Maybe a baby was born in the city hospital.

We do know that the event was far more important than it seemed at the time, for it signaled the end of the South's traditional role as a predominantly rural area. Since that date, more Southerners have lived in urban areas—cities with over 2,500 persons and thickly settled fringes of larger cities—than in the country.

The nation as a whole became urbanized at a much earlier date than the South. The chart indicates that the proportion of the nation's people living in urban areas has increased steadily since 1840—an average of 5 percentage points each decade. As early as 1870 over a quarter of the population lived in cities and towns, and in 1920 over half lived in urban areas. By 1960 almost 70 percent of the nation's population was urbanized.

In the Deep South states included entirely or partly in the Sixth Federal Reserve District, on the other hand, cities grew for a while at a much slower rate than in the nation. Less than 10 percent of the population lived in urban areas in 1870, and by 1920 the proportion had increased to only 25 percent. Since 1940, though, the percentage of people living in the urban areas of Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee has increased at well over twice the...
national rate. By 1960, the area was five-sixths as urbanized as the entire country.

A look at the factors that usually go along with the rise and fall of cities helps to explain the nature of the recent growth and development of urban areas here.

**Economic Growth Precedes City Growth**

The earliest towns were small, simply because agriculture yielded barely enough food to support those working the land. As farming methods improved, more and more people were free to move to the towns. Most of the resulting ancient population centers were artificial creations arising from military needs and the whims of rulers. Such places rose and fell with the tides of empires.

Only in cities where economic functions—trade, commerce, and industry—became important did any significant growth occur. Rome and Constantinople attained great size, even by modern standards, because they were economic as well as political centers of empires. When their empires crumbled from the onslaughts of the Huns and Vandals, however, so did their economic importance, and their populations were sharply reduced.

City life all but vanished during the Middle Ages as trade and commerce declined in importance and each locale tended to become self-sufficient. Most of the populace lived in small clusters of servants' dwellings surrounding feudal castles. Markets and forums, the institutions that characterized early cities, did not exist.

The revival of trade that accompanied the political and social reforms of the twelfth and thirteenth centuries set the stage for the redevelopment of towns. Most of the existing cities of Europe can trace their beginnings to this period.

As the world emerged from the Dark Ages, its economy developed many of the features that can be recognized in a modern economy. Towns, in turn, took on more of the characteristics of modern cities. Many of the factors that determine the location and growth of cities today became discernible.

The earliest Renaissance towns were founded at “breaks” in travel routes, where the main roads crossed navigable rivers or ended at the sea. As commercial activities other than trade became important, towns were established at “central” points most convenient to the surrounding countryside. Later, as the Industrial Revolution emerged, towns were located where there was sufficient water power to drive the wheels of industry. Modern industrial techniques and improved transportation resulted in urban development in places where natural resources such as coal or iron could be found.

The mere act of establishing towns did not insure that they would grow into large urban areas. The first movement of large numbers of people to cities—the process we call urbanization—began in earnest in England during the latter part of the eighteenth century, at the outset of the Industrial Revolution. Newly discovered manufacturing processes required large numbers of people to work together in a single plant. The firms that supplied the manufacturers found it more economical to be nearby. As more and more people concentrated in single areas, city life itself created a demand for new products and services, and the process became self-generating: New industries needed workers who created markets for other new industries, and so on.

Industrialization came to the United States shortly after the country was settled. Being isolated from the European manufacturing centers and having an abundance of raw materials assured the nation of a rapid rate of industrial growth. The first manufacturing plants were located in New England, where waterfalls provided the necessary power. The discovery of coal, iron ore, and other resources led to rapid industrialization in the Midwest. Both of these areas amassed large urban populations at the time they became industrialized, as did England and other European countries.

One important fact emerges from reviewing the history of European and American city development: The proportion of a region's population living in urban areas depends primarily on the extent of that region's economic activities requiring large concentrations of people. City growth, therefore, is in a sense an index of the economic character of the region in which the cities are located.

The establishment and development of cities in this part of the South further illustrates the principle set forth above. The earliest Deep South cities—Savannah, Augusta, and Mobile—were established as military and administrative centers. Nevertheless, they became important on the basis of their economic functions as port cities. New Orleans, Memphis, Columbus, Macon, and Pensacola, other cities that achieved early prominence, were also ports.

As the interior of this region became more heavily populated, towns were established at central locations to serve as market centers or transportation junctions. Most of the county seats were founded to serve this function.

**The South's Cities Remain Undeveloped at First**

With the exception of New Orleans, a trans-shipment point for the produce of the industrial Midwest, Southern cities remained relatively small until well into the twentieth century. Only New Orleans and Memphis contained over 100,000 people in 1900. By 1920, when 68 cities in the nation had reached this population size, only Atlanta, Birmingham, and Nashville in the District area had joined the list. Thus, an area that contained 12 percent of the nation's population had only 7 percent of its large cities and less than 4 percent of the population of these cities. As long as the South remained predominantly agricultural, its cities, reflecting this type of economy, remained small.

Recent changes in the South's economic structure have been accompanied by a growth of cities because the economic activities that have become important are those generally concentrated in urban areas. The rapid industrialization of the Deep South in recent years has been documented in a series of *Monthly Review* articles published in 1960. By 1960, this part of the South contained less than 12 percent of the nation's population. It had increased its share of the number of cities with over
100,000 people to 13 percent, however, and it held almost 9 percent of the population of these cities.

Just as the recent changes in the economic characteristics of this part of the South have been diverse, so have the economic factors that have influenced the growth of Southern cities. Manufacturing provided a large part of the original push to urban development in the six-state area, as it did elsewhere, and is still a relatively important factor. A rapidly increasing manufacturing productivity means that we are getting more and more of the goods we need, however, with little or no increase in the amount of labor required. Thus, people and resources have been directed toward other activities.

Because the nation's people have more leisure time and higher incomes, the resort business in parts of the South has become a major industry. The growth of the Southern market has resulted in the establishment of branch offices and plants in the region. Moreover, with increased incomes the demand for services from laundries, repair shops, law offices, and many others has helped to raise employment in Southern cities.

Increased governmental operations in this part of the South has been an important factor in recent city growth. Large military bases require nearby city services. The new space-age installations have caused cities to be built out of near-wildernesses. Governmental health and welfare activities have brought about a need for regional administrative centers.

Within manufacturing many changes have taken place in recent years. Employment in textiles, lumber and wood products, and primary metals, the first important manufacturing industries in this part of the South, has remained unchanged or declined in recent years. On the other hand, other industries, such as petro-chemicals, apparel manufacture, and electronics, have enjoyed rapid growth in the past decade or so and have attracted thousands of people to the region's cities.

Urban developments in the various District cities in the past ten years reflect the effects of all of these growth factors. Florida, representing over 40 percent of the urban dwellers added to the six-state area in the past decade, has a smaller percentage of manufacturing employment than any other District state. Its climate and recreational facilities have been the main attractions. Its new residents have found jobs in the growing resort industry and other service occupations that are carried on more efficiently in a mild climate. In choosing Florida for one of its missile testing sites, the Federal Government has brought about the establishment of many defense-oriented industries.

Government installations and defense industries have been partly responsible for the recent growth of an unusually large number of cities in the entire District. Some of the metropolitan areas that owe a great deal of their recent growth to Government activities include Columbus, Augusta, Macon, Albany, and Huntsville.

The decentralization of industry and the increasing importance of the Southern market have contributed heavily to the recent growth of Atlanta, Jacksonville, and Nashville. Because of such factors as their central locations and good transportation facilities, these cities have been able to attract a large share of the branch offices and branch manufacturing facilities that have come to the area in recent years.

The development of an important petro-chemicals industry has spurred the growth of such cities as Baton Rouge, Lake Charles, and New Orleans. New manufacturing plants have been instrumental in the growth of a number of smaller cities. Some large manufacturing centers, on the other hand, including Birmingham, Chattanooga, and Knoxville, have experienced lower rates of growth in recent years because their basic industries have not expanded and other growth factors have been absent.

**Characteristics of Southern City Growth**

Although the factors that have influenced the growth of cities have been diverse, certain general characteristics may be observed about recent urban growth in the six-state region.

In the first place, a major portion of the area's new urban residents have moved to the large cities. Cities with over 50,000 people and their thickly settled fringes in 1960 had absorbed 80 percent of the increase in urban population over the decade. Thirty-eight percent of the District's people lived in such areas in 1960, compared with only 27 percent in 1950.

The growth of large cities in the region has been outward. These cities are largely products of twentieth-century developments. Perhaps the most important innovation has been the automobile, which has enabled the worker to live at a relatively great distance from his place of employment. Thus, the average District city that has over 100,000 population has only 3,600 people per square mile. This contrasts sharply with the Northeast, where the average large city crowds almost 15,000 people into each square mile.

Factors other than the newness of a city determine its density, of course. One of the most important of these is the ability, or lack of it, to annex outlying territory. A large number of District cities have expanded their areas by this method in the past decade. As a matter of fact, about two out of each five persons added to the population of urban places in the region during this period lived in areas that were annexed to cities after 1950. The total land area of District cities with more than 50,000 people increased over 50 percent in the ten-year period. Annexations were particularly important to the growth of Atlanta, which added 171,467 people in 91.3 square miles; Tampa, which picked up 140,331 new residents and 66.0 square miles; and Mobile, which added 62,375 people in a 127.5 square-mile area.

The greater part of the recent growth has occurred in the suburbs, despite large annexations to major cities. Thus, during the 1950's the populations of the central cities of District metropolitan areas increased only about 28 percent. The number of people living in the remainder of these areas, including the urban fringes and the more distant suburbs, jumped 66 percent. Indeed, the tendency for city dwellers to move farther from the middle of town has led some analysts to observe a trend toward "super"
Financial Growing Pains of Southern Cities

Recently, we asked an important official of a large Southern city to describe his number one financial problem. Without hesitation, he answered in a word: "Money." He continued with Shakespearian-like rhetoric: "More money might not cure all of our ills, but it would sure help to ease the pain." The pain, which most major District cities feel with varying degrees of severity, is partly the result of growing.

Population has increased sharply in recent decades. But more than that, people have demanded—and in many cases obtained—a higher quality of public services. The dilemma of municipal managers in just about every major city in the nation is that the services citizens and governmental officials alike feel they need have generally exceeded the funds available to pay for them.

What are some of the needs that cities must respond to if they are to fulfill their role as important economic, social, and cultural centers? Are the sources of revenue available to cities equal to the demands placed upon them? How may the consolidation of metropolitan governments and functions contribute to the ideal of maximum public service at minimum cost? Answers to these questions are of more than academic interest. Most of us now live or work in cities; thus, their progress or decline will vitally affect our own well-being. It is no exaggeration to say that the cities' problems are our problems.

Population Growth Boosts City Spending

Most people are aware that population in and around our major cities grew rapidly during the decade of the Fifties. One does not have to review population statistics to verify this. It can be deduced from our crowded schools, the shortage of downtown parking space for autos, and the slow-moving traffic on express highways at "rush" hours. What is sometimes overlooked is the degree to which people have packed themselves into metropolitan areas, and the financial pressures on cities as a result of growth in the number and concentration of people.

"Population in metropolitan areas is expanding," you may say, "but what's a metropolitan area?" Well, metropolitan areas vary in geographic and population size and in the composition of political units within their boundaries. In general, a metropolitan area is defined as a county or group of contiguous counties that contain a city of at least 50,000 inhabitants or "twin cities" with a combined population of 50,000. The largest city within the metropolitan area is called the central city. This is the hub, the center around which the economic and social activities of the entire metropolitan area revolve.

During the Fifties, 3.7 million persons were added to the population of the District states' 29 metropolitan areas. As a result of this growth, about 10 million people, or almost one-half of the population, slept and ate, worked and played, lived and died in these areas in 1960. Although their number and size increased over the past decade, these areas still account for only 10 percent of the land surface of District states. In terms of the bunching of people, at least, we have moved toward greater "togetherness."

The first article in this Review points out that most of this increase in population during the Fifties was due to an increase in the number of people outside central cities. As may be seen in the chart, this pattern of growth is vividly illustrated in the population changes in the largest metropolitan areas in the District: Atlanta, Birmingham, Jackson, Miami, Nashville, and New Orleans.

Growth in population both inside and outside central cities has been an important element shaping the public service requirements of such cities. Population increases have boosted spending in most cities located in District metropolitan areas ranging from Albany, Georgia, the smallest, to Atlanta, the largest. The financial pressures created by this expansion in spending vary only slightly in kind and degree from area to area.

Cities Spend to Service

Geographic boundaries determine cities' jurisdiction in taxation and other matters. Suburbanites, in the course...
of their work or play, however, are bound to be drawn into the “downtown area.” In so doing, they add to the already heavy demand for services created by city residents.

Expenditures for freeways, streets and highways, and traffic control are probably the most obvious areas of city spending influenced by suburbanites. The commuter—who works in the city but retreats into the quiet of the country in the evening—must, morning and night, fight the traffic jams that often clog the entrance to the city. As he creeps along the road in his high-powered car, he may mutter darkly that “the city ought to widen the street” or “extend the highway” or “build an access road.” Other casual travelers, the suburban housewife going downtown to shop and the salesman just passing through, add to the city’s transportation problems. Also, since more people are flowing into and out of the city as a result of suburban expansion, a larger number of city police officers are needed to direct traffic and safeguard the peace.

In addition to the suburban influence, cities of all sizes have had to spend more because of the increase in the number of their residents and the extension of their city boundaries. The six major central cities noted earlier increased their total expenditures 82 percent from 1951 to 1959. Spending for current operations rose more sharply than capital outlays, but as the finance officer of one major Southern city put it, “We can usually squeeze out enough money to cover operating costs. It’s the capital outlays that kill us.”

Current operating expenditures include spending for what some city managers call “housekeeping.” This involves expenditures for such things as police and fire protection, sanitation, and recreation, which account for a huge chunk of the budget of most Southern cities. “Sanitation may not seem like an important function,” said one official, “but you ought to hear the screams from residents if the trash can overflows one day.”

In the area of “housekeeping,” many city managers feel they provide better services to their residents than are available to suburbanites. In areas outside the central city, trash and garbage collection is sometimes less frequent than in the city. Recreational facilities are scarce. Finally, the job of providing satisfactory police and fire protection is difficult because homes sprawl over a wide area.

The operation of schools also falls into the category of day-to-day services the city must provide. The school-age population has become so large and problems of management so great that many Southern cities maintain their school operations separate from other functions. A school district or school board handles the program, and frequently the annual amount spent for schools is about equal to that spent on all other city functions.

The expenditures of most Southern cities for current operations have risen at a gradual rate from year to year. Capital outlays of individual cities, however, are quite volatile. For the period 1950-59, the six major central cities spent over $500 million for such things as land, roads, sewer and water systems, schools, and public buildings. Again, population growth was the major stimulus to spending. More people need more residential housing. Expansion in housing frequently requires an accompanying growth in streets and in water systems and sewerage plants. Children live in many of the houses, so schools must be built. The increased volume of city activity demands more employees and more public buildings to house them. And so it goes.

Spending to renew and develop cities has not, as yet, absorbed local capital funds in any quantity. Although less obvious to him than his transportation needs, the suburbanite, as well as the city dweller, has a direct stake in the way his central city grows. The elimination of slums, the renovation of downtown shopping areas, and the general beautification of the city benefit all of us. Urban renewal projects and other redevelopment programs to revitalize the city are moving forward in many places. Often, however, the pace of progress is slow.

Those in the business of city renewal point to one encouraging sign that may give their movement impetus. People are coming to recognize that the functions of the city and the suburbs are more complementary than competitive. It makes sense to purchase bread and milk at the neighborhood store; but for specialized goods and services you are apt to find a “better buy” downtown. One may also go to the neighborhood movie as a matter of convenience; it is the central city, however, that is more likely to be able to cater to the specialized recreational wants of citizens by providing cultural and sporting facilities, such as auditoriums and stadiums.

Since most Southern cities are just able to meet expenses for current operations, a large share of capital expenditures has been financed through the sale of long-term bonds. As a result, the long-term debt of most Southern cities increased and that of the six large cities noted earlier doubled from 1950 to 1959. Despite this huge increase, the level of general obligation debt of almost all cities is below the ceiling frequently established by law or statute. Thus, cities have the authority to incur debt to finance additional capital outlays. Some officials, however, are beginning to wonder how long they can continue to get approval of bond issues that involve a tax increase and are subject to referendum.

Public services cost money. Some cities, it is true, have received Federal funds for urban renewal and for other purposes. Federal and state aid, particularly through the Interstate Highway Program, have helped develop a network of roads and highways into, through, and around the city. Substantial state help and some Federal assistance have enabled cities to finance their school programs. Still, cities must raise a large share of the funds needed to provide public services. The demands are many. And money is in short supply.

Cities Tax to Spend

The sources of general revenue available to finance city spending may be classified into three standard Census categories: intergovernmental revenue, charges, and taxes. Intergovernmental revenue represents amounts received by the city from other governments as fiscal aid or as reimbursement for the performance of services rendered. Charges reflect amounts received for perform-
From 1950 to 1960, the growth in population inside and outside central cities in metropolitan areas resulted in a sharp expansion in demand for many types of public services.

![Percent Change in Population]

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<tr>
<th>City</th>
<th>Central City</th>
<th>Outside Central City</th>
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Central cities and special districts overlying the cities accounted for a large share of the total expenditures for public services made by all governments in metropolitan areas, according to 1957 Census data.

![Expenditures for Public Services]

The sharp rise in expenditures for purposes other than schools illustrates the financial effort of the six cities noted above to try to keep pace with population needs.

![Expenditures Over Time]

Capital outlays for schools, water and sewers, streets and highways, and the like resulted in a rise in total long-term debt of cities.

![Debt of Cities]

Fees and licenses have, it is true, increased in importance as a source of revenue to many Southern cities. Some cities outside the South have taxed the earnings of persons who work in the city but reside outside its limits. Others have been granted authority to levy a tax on the sales of goods and services. Still others have looked for new revenue sources, to no avail.

The lament of most cities inside and outside the South, however, is that their revenue sources are limited. The finance officer of one Southern city summed it up like this: “The Federal Government gets first crack at the choice taxes; the state comes next; and we get what’s left over.” Someone less partisan, however, might have responded that if properties were reasonably and uniformly valued and if exemptions were lower and the tax rate higher, the cities’ problems would be less acute. While readjustment of the property tax would yield some additional income, it is questionable whether this tax can continue to bear the brunt of all necessary revenue increases.

Another common complaint of Southern cities is that the state government does not provide them with adequate financial assistance, either in the form of aid or in the rebate of taxes collected in their areas. This condition, it is alleged, has been perpetuated by rural-dominated legislatures. State governments, on the other hand, might point out that their funds are also scarce and must be allocated among competing needs.

Cities want more revenue. They also want to promote the economic growth of their areas. Both of these objectives may be encouraged if cities work toward a balanced tax structure. In such a structure, each sector of the economy would carry its “fair share” of the tax load. Taxes on residential property would not be so great as to slow down home building or drive families outside the city limits. Nor would taxes on industrial or commercial properties be so high as to discourage the growth of new businesses. To avoid undue taxation of property owners, other sources of revenue would have to become available.
Economic growth is an objective common to most political units in metropolitan areas. The success of an individual community in attaining this objective, however, is partly dependent upon expansion of the nation’s economy and that of the region within which it is located. In the metropolitan environment that is developing, it is increasingly difficult for a community to “go it alone.” This applies not only to the ability of a government to achieve broad economic objectives, but also to its ability to satisfactorily provide public services.

**The Metropolitan Environment Changes**

Large cities, with their high population densities, frequently provide efficient services, particularly of the “housekeeping” variety. In some instances, however, a small city or town may provide low-quality service because of an inadequate economic base, a small scale of operations, and/or a low population density. If a government of this type also happens to be on the fringe of a large city, it is a likely candidate for annexation—a process by which a small community is absorbed into a political and economic unit big enough in size to provide efficient public service.

The laws and statutes regarding annexation vary among District states. Even when the laws are favorable, it is sometimes difficult to persuade the political leaders and the citizens of a community that annexation is good for them. Those people holding political power may be reluctant to give it up or share it with others. The hearts of many “to-be-annexed” citizens, moreover, may be filled to overflowing with community pride, and they may be unwilling to trade their autonomy for potential economic efficiency. Their resistance may be even more intense if annexation also means an increase in their taxes.

Even though the larger cities are swallowing up the smaller ones, they are aware of their own limitations. As a result, they are trying to distinguish between those services they can efficiently perform locally and those that might best be provided on an area basis. Why are they doing this? Basically, because functions such as transportation, sewerage, water supply, and air pollution overlap the boundaries of individual political units. These functions are metropolitan in character and frequently may be beyond the political authority and economic ability of individual units to cope with.

The governments in metropolitan areas in District states have responded in different ways to the challenge of area problems. The most formal plan is that of metropolitan Miami, which includes 33 separate governmental units. In 1957, a metropolitan charter was adopted by the residents of Dade County, the equivalent of the Miami metropolitan area. The “Metro” government, as it is called, has jurisdiction over all county-wide functions except state courts and the public schools. It is charged with the responsibility of planning county development and has the power to provide and/or regulate a wide range of public services throughout the metropolitan area.

In many other large metropolitan areas in District states, there is some appointed body grappling with area-wide problems. Recently, the Atlanta Region Metropolitan

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<td>Jackson</td>
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Planning Commission came forth with its proposal for a rapid transit system to supplement the expressway network now under construction. Such a system would relieve traffic congestion and be a boon to citizens. It would also be of tremendous economic significance to the region. The Commission has pointed out that “With rapid transit, the outlying commercial and industrial establishments in all five counties will have available to them markets and labor forces unknown in smaller metropolitan areas. Moreover, the future economic growth of these outlying areas is enhanced by having a big-city downtown with big-city financial houses, skyscrapers, and ideas.”

Although the dream of a rapid transit system is off the drawing board, much will have to be done before the wheels of the train begin to roll. The first step would be the passage of state-enabling legislation to set up an organization to carry forward the project. Continued consultation and cooperation of political units in five counties would be required to plan such things as the type of transit equipment to be used, how the capital expenditures will be financed, and how the system will be managed. If all goes well, construction of the initial system may be completed in the period 1966-69.

When governments are consolidated through annexation and public service functions are consolidated through the creation of transit systems or other agencies, the structure of metropolitan government is modified. Often, those seeking such modifications may hope to reduce the cost of public services to citizens. In practice, the result is more likely to be better service for each tax dollar.

Changes in the metropolitan structure frequently are considered in terms of economics. It should be clear, however, that political and individual values are closely intertwined with the economics of metropolitan problems. Before snapping at the bait of even limited area-wide government, individuals must be convinced that certain of their public service needs are metropolitan in character. Political leaders, in turn, must be convinced that their constituents are convinced of this. It may well be that the ingredients for success of the metropolitan approach are education, consultation, and compromise.

If population growth in metropolitan areas continues as expected, both citizens and political leaders will be required to further adapt themselves to their changing economic environment. Metropolitan man has not yet evolved. If he ever does materialize in pure form, he may have some of these characteristics: He will be proud of his local community and retain the best of the “town hall” concept of government. He will recognize, however, that he must at times subordinate his personal wishes in the interest of area progress. He will demand and get from his political leaders a clear statement of the costs of public services of varying degrees of quality. He will rationally choose that combination of quality and price that best suits his needs, recognizing that he will get in service only that which he pays for.

**Banks Help Finance Cities’ Growth Needs**

“As long as we think that our city and county are in good shape financially and that their financial administration is satisfactory, we believe we have an obligation to support their credit.” This is about the way a Southern banker recently described his attitude toward financing city and other local governments. The statement illustrates bankers’ public-spiritedness. We are reminded, however, that banks are not charitable institutions; they have obligations to their stockholders and depositors as well as to municipalities. Fortunately, Southern banks have generally found the financing of urban governments both profitable and consistent with “sound” banking practices.

The chief financial need of municipal governments arising from the growth of cities is that of credit for capital expansion and improvements. How and to what extent are banks in this District helping to furnish this credit to Southern municipalities? Available data, together with bankers’ responses to inquiries made by this Bank, can help us answer this question.

**Most Banks Invest in Municipal Securities**

At the end of 1960, insured commercial banks in District states held over $1.4 billion in state and local government obligations. Most of these securities are of local governments. Moreover, a large proportion represents credit extended to political units within the area for expanding and improving public facilities.

Banks invest in substantial amounts of securities issued by political units within their trading areas, although they hold issues of governments throughout the country. This policy reflects the responsibility banks feel toward local credit support and their access to the market for bonds of nearby governments. The tendency to concentrate municipal bond purchases locally is probably stronger for small banks than for large ones. Generally located in small communities, they are more apt to play the role of a local credit institution.

The amount of banks’ short-term lending to state and local governments, which is mainly used by nearby political units in anticipation of tax receipts and bond sales, is relatively small. Instead of borrowing from banks, many municipal managers maintain a cash fund to draw upon when expenditures exceed tax revenues. Bond anticipation borrowing is prohibited to most state and local governments.

Even if District banks were to purchase securities of municipalities only within this area, they could not supply them with all the credit needed. In the five years ended 1960, local governments in District states offered for sale about $5 billion in securities. Banks in this area would have had to use roughly a third of their resources to supply this credit. To do so would have meant denying to businesses and others much of the credit that was granted them.
Banks, of course, must weigh the higher risk and inferior marketability of municipal bonds against this advantage in yield. Tax exemption seems to have encouraged banks to buy more municipals, though, as evidenced by the aggressiveness with which banks bought them after the Federal Government ceased to allow exemption on its own obligations in 1941.

To some banks, another enticing feature of acquiring municipals is the possibility of getting more governmental deposits. As many bankers point out, however, large municipalities are tending to hold less of their liquid assets in bank deposits and more in short-term U. S. Government securities. On the other hand, banks do find municipal securities useful against such public deposits as they already have.

**Banks Seek Shorter Maturities and High Quality**

Tending to counterbalance banks' desire for profit is their insistent need for liquidity and safety. While governmental units find it necessary or desirable to issue bonds with serial maturities up to twenty or thirty years, District banks provide a good market only for those maturing within ten years. A few large District banks are willing to hold longer issues.

In addition, banks seek bonds with high formal quality ratings unless they are familiar with the financial circumstances of the borrowing unit. Some set a limit on the amount of their revenue bonds relative to the amount backed by "full faith and credit," or general obligation bonds. Bankers are aware, however, that the revenue issues of certain political units for such things as water and sewerage improvements are equal in quality to many general obligations.

**A Few Banks Underwrite Municipal Securities**

Although banks do not invest in municipal bonds of all maturities, they can help market longer- as well as shorter-term issues by successfully bidding on new offerings and reselling them. Nationally, according to a recent estimate, commercial banks underwrite roughly two-fifths of the dollar amount of new issues.

In the District no more than ten banks, all large and located in large cities, continually engage in underwriting municipals. Many banks in small communities occasionally underwrite issues of nearby political units. During a recent eighteen-month period, banks in District states underwrote, either singly or in participation with other bank and nonbank underwriters, 17 percent of the offerings by governments in the same area. Large money market banks in the nation's financial centers, however, substantially supplemented the relatively small underwriting contribution of District banks.

Why have certain District banks chosen to participate actively in municipal bond underwriting? As in the case of investing in municipals, when a bank bids on new issues for resale it may feel that it is fulfilling an obligation to promote community development. Moreover, to a sizable bank with personnel to specialize in this activity, under-
writing can mean extra net earnings. Given access to a developed retail market for new issues, banks, like other dealers, can profit from a spread between buying and selling prices. If banks retain underwritten issues in their investment accounts, they avoid having to pay dealer commissions.

Dealer banks also enjoy a tax advantage. They do not have to amortize premiums for a security held for less than thirty days or for one maturing after five years unless the security is sold at a loss. This benefit is in addition to tax exemption on coupon yields.

The majority of banks, however, have not found it possible or desirable to engage actively in underwriting municipal securities. To underwrite larger issues, they must be able to join syndicates. For many banks, the only direct involvement with municipal securities is helping them sell issues, for instance, by increasing the development of a retail market for new issues.

In addition to investing in and underwriting securities of municipal governments, banks provide them with certain direct and indirect financial services. They receive and disburse state and local government deposits. Their trust departments purchase municipal securities for individuals. They lend to nonbank dealers for purchasing and carrying such securities. Finally, municipal managers say that banks have been most helpful in providing them with financial counseling. Perhaps the greatest contribution banks can make to city governments is helping them to achieve sound financial practices.

Albert A. Hirsch

SOUTHERN CITIES

Continued from Page 3

cities, as the suburbs of one city ultimately meet those of another, and one large urban area is formed. The lower east coast of Florida has already reached this stage, with an unbroken concentration of people stretching from West Palm Beach to south of Miami, a distance of 80 miles. There is evidence that the area between New Orleans and Baton Rouge and the strip between Atlanta and Greensboro, North Carolina, may be headed in this direction.

These characteristics pose certain common problems for our cities. Rapid population growth puts a strain on existing municipal facilities. The direction and strength of future growth must be anticipated if new services are to be provided when needed. Although economic factors will largely determine the extent of future city growth, the ability of cities to cope with the problems of growth will determine whether or not they will function as efficient economic units.

Robert M. Young

Bank Announcements

The Port Charlotte Bank, Port Charlotte, Florida, a newly organized nonmember bank, opened for business on September 19 and began to remit at par for checks drawn on it when received from the Federal Reserve Bank. Officers are William L. Hart, President; N. H. McQueen, Vice President; James B. Cheek, Cashier; and William Crossland, Assistant Cashier. Capital totals $225,000, and surplus and undivided profits, $135,000.

On September 20, the nonmember St. Martin Bank and Trust Company, St. Martinville, Louisiana, began to remit at par. Officers are J. R. Bienvenu, President; A. C. Gauthier, Executive Vice President; Larry J. Comeaux, Cashier; and Martin Ducrot, Celine G. Ducrot, E. J. Bienvenu, and Gordon J. Delambre, Assistant Cashiers. Capital totals $100,000, and surplus and undivided profits, $339,483.

Bank Announcements
### Sixth District Indexes

**Seasonally Adjusted (1947-49 = 100)**

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**Florida**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**Georgia**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**Alabama**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**Mississippi**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**Louisiana**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**Tennessee**

- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151
- Farm Cash Receipts: 124 125 126 127 125 127 127 127
- Department Store Sales: 159 151 151 151 151 151 151 151

**For Sixth District area only. Other totals for entire six states. n.a. Not Available. p Preliminary. r Revised.**


**Daily average basis.**

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Federal Reserve Bank of St. Louis
The pace of economic recovery in the District has been somewhat disappointing, at least to those optimists who expect every month to be better than the last. In August most measures, seasonally adjusted, merely held the gains previously made. Manufacturing activity showed little change, as did consumer spending. Although agricultural prospects are bright, farm cash receipts actually declined.

Nonfarm employment in the District as a whole held steady in August. This over-all stability concealed small increases over July in Florida and Tennessee, however, and small decreases in Alabama, Georgia, and Louisiana. Only in Florida and Mississippi was total nonfarm employment above the level of a year ago. Factory employees put in a slightly shorter work week, and as a result manufacturing payrolls declined somewhat from the record high set in July. Construction activity increased, as shown both by employment and the volume of new contracts. The textile industry maintained the ground it had gained earlier, but it has not yet recovered the level it reached prior to the recession.

There are tentative indications that consumers may at last be loosening their purse strings. Preliminary figures show a sharp rise in September department store sales, following a decline in August. Household appliance store sales also rose, contrary to usual seasonal behavior, in August. Sales tax collections through July indicated a rise in consumer spending. Furniture store sales, however, were slightly off in August after several months of improvement.

The farm economy is faring well, although setbacks have occurred in some local areas. Large harvests are in prospect for several major crops, notably corn, sugar cane, tobacco, soybeans, and pecans. In most places the open weather of recent weeks has enabled farmers to push ahead with their harvests and fall plowing and planting. Prices received by farmers for most of the important products increased in August, standing well above year-ago levels. Broiler prices were an exception; although they rose slightly in August, they were still well below last year's. A decline in the marketing of meat animals reduced farm production in August and, with it, cash receipts. Hurricane Carla damaged rice, sugar cane, and cotton in southern Louisiana. The rice harvest is expected to be down only 5 to 10 percent, though, and sugar cane production should be a good bit larger than last year's, reflecting both increased yield and acreage.

Consumers went a little more heavily into debt in August. This time they were borrowing more for home repair and modernization and various consumer goods, but less for automobiles. The introduction of the new car models may change that situation in September and October. Consumer savings in the form of member bank time deposits and savings and loan shares increased at about the usual pace for this time of year.

Loans at member banks stubbornly refuse to advance with the general business recovery. A slight seasonally adjusted rise in August was followed by a decline in September. Total deposits after seasonal adjustment declined in August. Even time deposits, which have been advancing almost constantly, rose more slowly than in previous months. Member banks' reserve positions remained relatively unchanged from those earlier in the year.