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Metropolis in Transition

R. MUSSELHORN

THROUGHOUT HISTORY, economic growth has been associated with urbanization as higher farm productivity permitted more people to live in metropolitan centers. In the recent past, this trend has been greatly accelerated with the exploding population growth, the shift in demand from agriculture to services, the tendency to more interrelated industrial processes and the development of local markets big enough to support large-scale production economies. At the same time, the automobile has greatly extended the spatial area of the new metropolis whose growth has been most marked in "suburbia." This rapid spatial expansion of the American metropolis has further accentuated its need for capital funds to finance a wide variety of business and civic projects.

Despite some tendency toward regional self-sufficiency, each metropolitan area has maintained its distinct function in the national economy. Many district metropolitan centers have continued their traditional role of serving a rural "hinterland" which has grown somewhat slower than the nation, a fact that goes far to explain the relative lag of district income payments.

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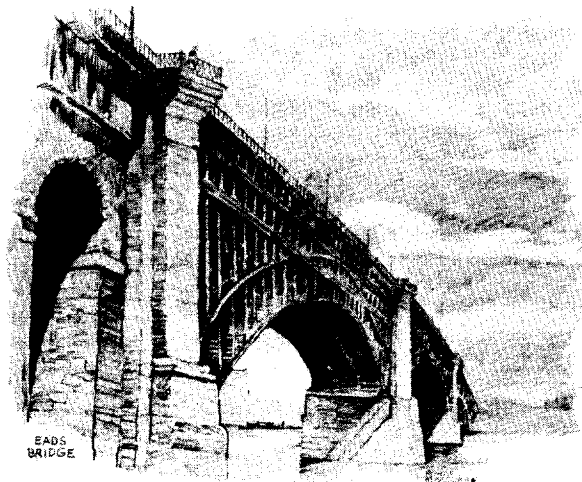

Eads bridge, an engineering wonder of its time, opened the granaries of the Midwest to the cities of the East and Europe, . . .

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Errata

In several sections of the article, "Metropolis in Transition," the author, attempting to brief the conclusions of Raymond Vernon and Lyle C. Fitch, quoted from and paraphrased their material which appeared in the November 1957 issue of The Annals of the Academy of Political and Social Science: "Production and Distribution in the Large Metropolis," pp. 15-30, by Raymond Vernon and "Metropolitan Financial Problems," pp. 66-74, by Lyle C. Fitch. Through an unfortunate oversight, credit for and reference to the published work of Mr. Vernon and Mr. Fitch was omitted. Both the author of the Monthly Review article and the Federal Reserve Bank of St. Louis regret this oversight.

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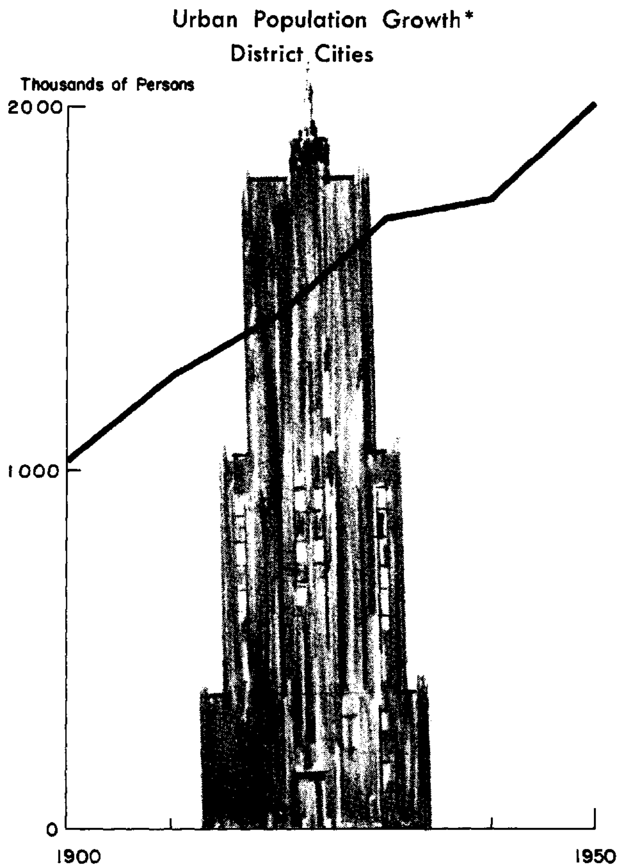
Metropolis in Transition

Throughout history, economic growth has been associated with urbanization as higher farm productivity permitted more people to live in metropolitan centers.

THROUGHOUT HISTORY, economic growth has been associated with urbanization as higher farm productivity permitted more people to live "off the land" in urban trade and political centers which became the focal points of income and wealth. Most civilizations of the past have been identified with the metropolis on which life of a large agricultural territory was focused, as Athens and Rome in antiquity, Florence and Venice in medieval Italy, Paris and London at the beginning of modern times when these two cities vied for hegemony in the "nonmetropolitan" New World.

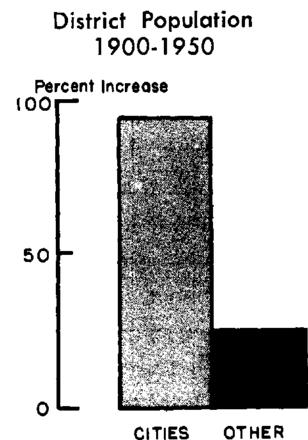


*All district cities with more than 50,000 population in 1950: St. Louis, 857,000; Memphis, 396,000; Louisville, 369,000; Evansville, 129,000; Little Rock, 102,000; East St. Louis, 82,000; and Springfield, 67,000.

Urbanization proceeded apace in the nineteenth and twentieth centuries when the industrial revolution created new manufacturing centers throughout the Western World. In 1800 the world had 36 cities with more than 100,000 inhabitants.[1] The only large city in the Western Hemisphere was Mexico City, which had 130,000 inhabitants, perhaps a fifth of its preconquest population. In the United States, the largest cities were New York and Philadelphia. Only 6 per cent of the nation's population lived at that time in urban places.

By 1850, this figure had reached 15 per cent, by 1900 it had climbed to 40 per cent, and by 1930 it was 56 per cent. In this same year, there were nearly 700 cities with more than 100,000 inhabitants throughout the world. These cities, all together, had 243 million inhabitants, 11 per cent of all the people in the world. The proportion was 22 per cent in the Americas, 29 per cent in Europe, 6 per cent in Asia, and 4 per cent in Africa. Among the large cities in the world, 40 had a million inhabitants or more, with 5 of these metropolitan centers in the United States: New York, Chicago, Los Angeles, Philadelphia and Detroit.

Part of this urban growth over the last century and a half was simply due to the fact that many small towns and patches of open country graduated into "urban places." But a considerable part of the increase was due to the fact that many large industrial areas (areas which were already urbanized by the middle of the nineteenth century) have persistently grown at a faster pace than the small towns and rural areas. For example, al-



[1] W. S. Woytinsky and E. S. Woytinsky, *World Population and Production*, New York 1953, p. 120.

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though the 33 largest industrial areas of the country accounted for only 23 per cent of the nation's population in 1870, these same areas had come to account for 36 per cent by 1930 and 42 per cent by 1950.

In the recent past, this trend has been greatly accelerated with the exploding population growth, . . .

This worldwide growth of cities has been greatly accelerated in the recent past when the population explosion has been adding more than 100,000 people a day to the inhabitants of the earth, a daily net growth equivalent to a city the size of Little Rock. In this country, the postwar "baby boom" has benefited mostly the larger urban complexes as there has been an absolute thinning out of the people in many agricultural areas due to the spectacular increases in farm labor productivity. Each year more American communities grow to metropolitan size, and there are now 172 standard metropolitan areas which contain at least one city of 50,000 inhabitants or more. Between 1950 and 1956, the total number of people in these metropolitan areas has increased by 12 million (from 84 to 96 million) so that today almost two-thirds of the American people live in a metropolitan setting. By 1975, it has been estimated, at least 150 million Americans will live in urban centers. Though technical advances of transportation and communication, of power generation, of automation and electronic data processing, have overcome many of the problems which once made cities essential, recent migration indicates that the American metropolis has remained a center of attraction for those who can no longer be accommodated in agriculture and the extractive industries.

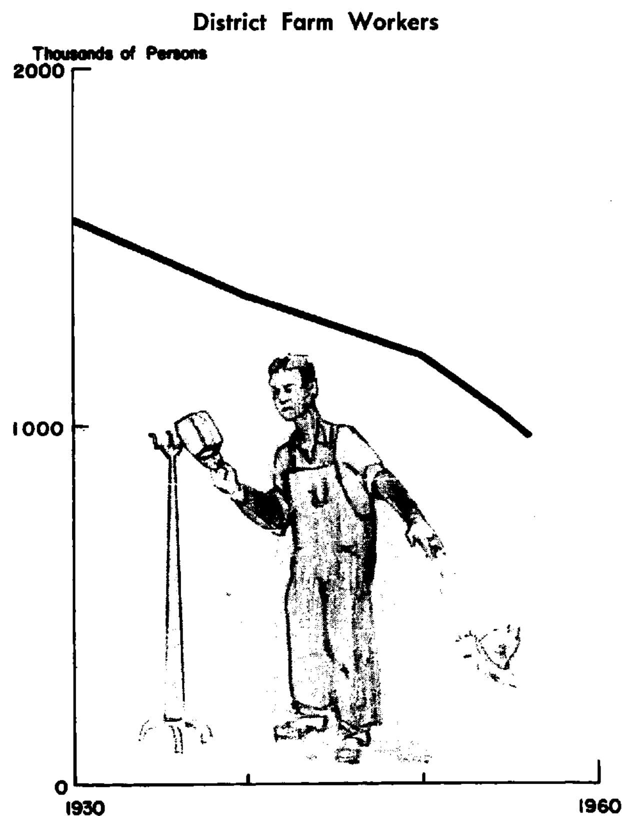
When the Committee for Economic Development recently invited fifty distinguished scholars and leaders in public affairs to name the most important problem to be faced by the United States in the next twenty years, their answers pinpointed, among other major problem areas, the one of metropolitan growth brought about by a bounding birth rate. Problems of metropolitan growth, in turn, refer to questions of how to finance the needs of government and industry within each metropolitan area, how to define the new relations between metropolitan areas and their "hinterland," how to distribute industry and population between the major metropolitan regions of the United States economy.

. . . the shift in demand from agriculture to services, . . .

The secular trend toward urbanization in the past century has been made possible by the long-term growth in output per worker. This growth has been characteristic not only of manufacturing but of agriculture as well. It has, at least in times of peace, been matched by an increase in the per capita consumption of goods and services. But as incomes have grown, wants have tended to change, leading to a decline in the relative importance of food and fibers raised on the farm and to an increase in the relative importance of that heterogeneous collection of demands which goes under the heading of "services." As a result, with farm productivity continually growing, many sons of farmers have had to look elsewhere for jobs. From 1870 to 1950, workers in agriculture declined from 50 per cent to 12 per cent of the United States labor force. In the same period, jobs in government went up from 2 to 8 per cent, jobs in wholesale and retail trade rose from 6 to 18 per cent, and jobs in the professions increased from 1 to 6 per cent. Many of these new jobs demanded urban locations.

Once started, the trend to urban growth feeds upon itself. For urban living has demanded more services

District Farm Workers



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still, while the productivity gains of workers engaged in these service industries, impressive as they are, have not kept pace with this ever increasing demand for personal and business services. Accordingly, as workers have been released by agriculture and manufacturing where productivity gains have more than matched the growth of demand, the share of the nation's labor force engaged in services has gone up even more than the share of the nation's output represented by services, a fact which has added further to the urban orientation of the nation's labor force.

. . . the tendency to more interrelated industrial processes and the development of local markets big enough to support large-scale production economies.

While jobs on the farm and in rural areas have been declining, and while service jobs have been growing in urban areas at a very rapid rate, manufacturing jobs are being distributed between urban and rural areas in a pattern all their own. Historically, the importance of being close to transportation centers was critical for industry and commerce. Accordingly, large cities developed at the nodes of the transportation system—where boats put in from the sea, where trails crossed a stream, where paths converged upon a mountain pass, where rivers and railroads had their junction points. The truck and the automobile have loosened the bonds of manufacturing plants to these transportation nodes and allowed them to consider locations more distant from the center of urban complexes. In this sense, the tie of manufacturing plants to metropolitan areas has been weakened. In another sense, however, the pull to larger cities may have grown in importance with the constantly increasing degree of fabrication characteristic of modern manufacturing. The products of farm, forest and mine are subjected to more complex manufacturing processes and to more intricate methods of assembly. Indeed, in some cases, "raw" materials have been entirely displaced by fabricated materials, such as artificial fibers and plastic products, leading to an increasing complexity of "inputs" of raw materials, of intermediate products and of highly skilled labor. It is again the large metropolitan area where the location of markets big enough to support large-scale production economies is more likely to coincide with the location of industrial clusters which provide a ready supply of many needed "inputs." Cities have thus grown in their relative importance because there has been a shift in demand from agriculture to services, because the relative importance of raw material locations have fallen, because the manufacturing role of individual establishments may have tended to become more specialized and interrelated, and because larger urban areas generate their own internal forces of growth as they provide a wide array of intermediate "inputs" and markets big enough to support more local plants enjoying large-scale production economies.

At the same time, the automobile has greatly extended the spatial area of the new metropolis whose growth has been most marked in "suburbia."

The greater flexibility of highway transportation, for workers and goods, has thus affected but little the metropolitan orientation of industry, yet has shifted greatly the distribution of people and jobs within each metropolitan area. The area of fastest population growth as well as industrial employment in the typical large metropolis is found in a ring surrounding the core city, a ring whose size has tended to increase with improved modes of transportation and, for manufacturing establishments, is often measured in terms of trucking hours from the metropolitan center. The great mushrooming of suburbs after World

St. Louis Area

CORE CITY
SUBURBIA

War II accelerated this long-term trend toward urban expansion, reflecting not only the great mobility of cars and trucks, but also space requirements of new manufacturing techniques. Since it is ordinarily easier to engineer a continuous flow of materials in a single-level plant than in a multi-story structure, large establishments prefer open sites, where horizontal expansion in any direction is relatively unimpeded, and tend to avoid cramped sites more than they did in the past. Preference for ground-level construction on the part of family residents as well as industry has contributed to the rapid outward spread of the new American metropolis whose geographic extent now often covers more than a thousand square miles.

"Sub-urbanization" may therefore describe recent developments more accurately than the term "urbanization." For almost all the recent growth has been outside the central cities which have grown but 5 per cent since 1950 while the suburbs have expanded their

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population by 30 per cent over the same period. In St. Louis, the largest district metropolitan area, the city proper shows an annual increase of 0.2 per cent while St. Louis county, which is separate from the city, has grown at an annual rate of 5.5 per cent since 1950. In this centrifugal movement the core city has been losing some of its traditional strength as a unifying element of the metropolitan region. Deposits of suburban banks have increased faster than those of many reserve city banks. Thus, demand deposits in St. Louis county doubled from 1950 to 1956 while they increased only 4 per cent in the city proper. Similarly, downtown retail sales have been losing ground relative to new suburban shopping centers. In the 45 largest metropolitan areas, suburban retail sales increased by 32 per cent in the period between 1948 and 1954, but downtown sales gained by only one per cent or, in real terms, actually shrank. Suburban neighborhood papers are showing marked circulation increases while many big metropolitan newspapers are barely holding their own. This suburban rate of business growth has been considerably higher than the suburban population increase. On the fringe of the city, people are no longer drawn inward toward the center, but outward to the new shopping areas. Los Angeles, which has sometimes been called 100 suburbs in search of a city, shows the pattern at its most extreme; there is hardly any center at all, and what center there is seems useful to most citizens chiefly as a way to get from one freeway to another.

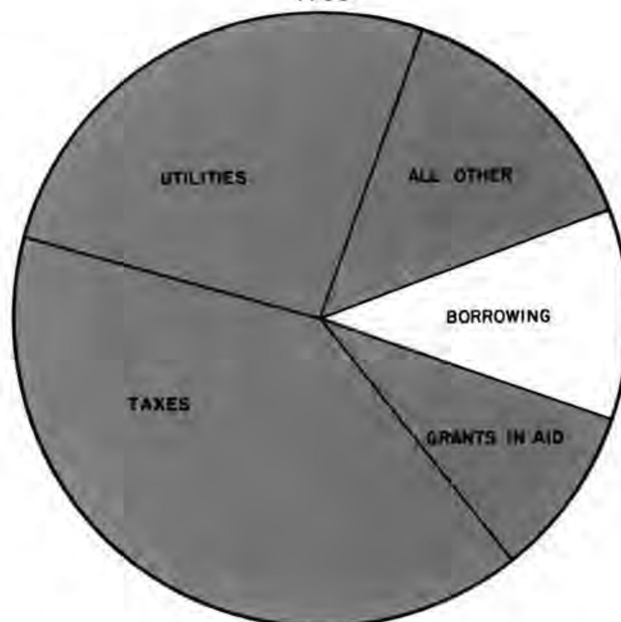
This rapid spatial expansion of the American metropolis has further accentuated its need for capital funds to finance a wide variety of business and civic projects.

The American metropolis has thus been reshaped by the automobile, while its major institutions of city government and finance still reflect the days of the streetcar, the unchallenged vehicle of mass public transit until the late twenties. As their populations increase and their activities expand beyond the traditional city limits, most metropolitan entities form a somewhat amorphous structure and live under the jurisdiction of a multitude of local governments which often extend across a state line. Thus, the St. Louis metropolitan area is governed by almost 200 independent political subdivisions on both sides of the Mississippi River in the two states of Missouri and Illinois.

The resultant overlap of governmental functions in a common commuting area leads to many problems of tax jurisdiction and the need for a common approach to areawide services, such as sanitation, transportation and zoning. These problems are often intensified by major population shifts within each metropolitan area, where more prosperous groups move away from the inner city to the suburbs, while new in-migrants tend to settle in the older parts of the city. Thus, the very prosperity which attracts newcomers also contributes to the slum problem of many great cities. One-sixth of all metropolitan residents have been said to occupy housing in need of rehabilitation, a problem most severe in the biggest, richest, most industrialized cities whose tax base may be seriously eroded by the continued out-migration of their more well-to-do residents. The larger cities thus tend to become concentration points of low-income groups and require disproportionately large outlays for social welfare and physical rehabilitation. In the suburbs, rapid expansion requires enormous amounts of new capital facilities in the form of streets, schools, recreational facilities and the like.

Expenditures of the 41 cities with populations exceeding 250,000 in 1950 rose by approximately 75 per cent over the last eight years. Total local government expenditures in the corresponding metropolitan areas doubtless increased considerably more. Capital needs of local governments are reflected in the steady offering of municipal securities which approached $7 billion in 1954 and has abated but little since. Many of the resultant financial problems of local fund raising and debt management arise primarily from a lack

Financing of District Cities
1956



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of adequate machinery rather than from a lack of fiscal capacity. Local governments, within the confines of state-imposed restrictions, have shown considerable ingenuity in tapping pools of potential revenue, however small. However, most of the local taxes used today tend to be relatively expensive to administer. Moreover, they are often dubious in their economic effects as the extension of activities across jurisdictional boundary lines makes it more and more difficult to relate benefits and taxes at the local government level. In the large metropolis, a family may reside in one jurisdiction, earn its living in one or more others, send the children to school in another, and shop in still others. A multitude of small communities may encourage tax avoidance by persons who move their residence or business establishment. These problems of local tax jurisdiction are intensified by wide discrepancies in the fiscal capacities of local government units.

The city, as a municipal corporation, is a creature of the state, and the legislature or constitution usually limits its power to levy taxes or borrow money. Problems of metropolitan finance are complicated therefore not only by potential rivalry between the core city and "suburbia," but also by state-local relations. Local tax revenues are rarely enough to pay for all local needs, and most cities depend therefore on state grants-in-aid for at least some of their functions. City residents, of course, pay a wide variety of state taxes and, as likely as not, feel that they get a disproportionately small share of state grants and services in return. The need has been expressed, therefore, to clarify the role of the local community in relation to its state government where the metropolitan areas are often under-represented.

Despite some tendency toward regional self-sufficiency, each metropolitan area has maintained its distinct function in the national economy.

State-local fiscal relations suggest the complex economic ties between the metropolitan area and its rural "hinterland" from which the area draws its raw material supplies and to which it offers many of its urban services. As the labor force and industries within each region develop increasingly complex ties with one another, the accelerated growth of metropolitan clusters tends toward some regional self-sufficiency in the production of goods. Regional economic analysis thus becomes in part a study of internal growth within metropolitan clusters and their "hinterland." As in the national economy, internal growth is determined by the two basic demands for local consumption and local investment. Purchases of finished and intermediate goods for local consumption, and purchases of capital goods by local business and government, less "imports," account for the two local demand sectors of the metropolitan economy.[2] As noted, it is the very size of this local market which reinforces metropolitan growth.

Again, as in the national economy, local demand is supplemented by "foreign" demand for local goods and services. Yet, while foreign trade may be of relatively minor significance for the vast free trade area of the aggregate national economy, it becomes of central importance in the open economy of a single metropolitan area. In spite of a tendency toward increasing industrial self-sufficiency within each metropolitan area, the primary source of income for most urban centers has remained the production of goods and services "exported" to other domestic regions. The size and character of these "exports" indicate the role of each metropolitan area in the national economy and influence each area's relative rate of growth. In addition to "direct" exports to "foreign" markets, there are many "indirect" exports sold to other local producers within the metropolitan area for further processing before being shipped "abroad." In addition to these visible "exports," there are also the goods and services sold to nonresident visitors who come into the area to shop, an item of particular importance to metropolitan tourist and convention centers. Finally, all earnings of residents received from "abroad" as labor or investment income add to the funds available for local spending.

The impact of these "exports" on local economic growth depends on the extent to which income earned in the "export" industries will be spent for local consumption and capital goods. That part of "export" income not spent at all or spent on "imports" from other regions will not add to local employment. This does not suggest that the local community, to maximize its growth, should minimize its "imports;" it rather reflects the common sense observation that each economic unit, whether it be a single firm or a large metropolitan cluster, will maximize its net income by extending the spread between sales or "exports" and cost of goods sold or "imports." Just as the single firm will expand its profits fastest by buying rather than producing those intermediate goods or services it can get cheaper in the market, so will a large industrial complex grow fastest by drawing freely on the goods available in the national and world markets to supplement most effectively its local resources.

[2] In this article the words "export" and "import" denote regional rather than international movements of goods and services.

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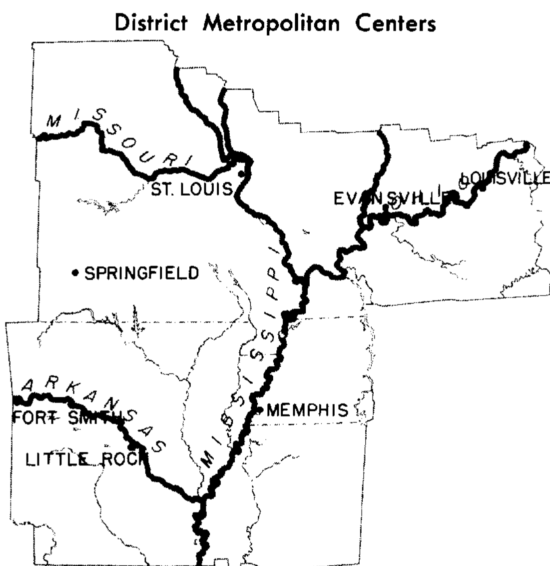
Each American metropolis has thus acquired its own unique production structure, determined by its "exports" to and "imports" from the national market, "exports" and "imports" which distinguish it from other metropolitan areas and supplement the self-contained local economic activity common to all major industrial clusters. New York has remained the major "export" center for financial and managerial services to other areas. Chicago offers the largest metropolitan concentration of heavy manufacturing. Los Angeles has become a complex of airplane and electronic production. Washington "exports" government services. The Houston industrial complex, held together by a web of inter-plant pipelines, ranks as one of the world's fastest growing chemical centers. Miami has become the largest metropolis whose "primary "export" consists of tourist services.

Many district metropolitan centers have continued their traditional role of serving a rural "hinterland" which has grown somewhat slower than the nation, . . .

Most district metropolitan centers had their origin as transshipment points on the great rivers of mid-America. St. Louis arose at the confluence of the great waters where the national east-west road crossed the Mississippi Valley. When the iron horse replaced the steamboat, St. Louis became the railroad center connecting the East with the West and Southwest. Eads bridge, an engineering wonder of its time, opened the granaries of the Midwest to the cities of the East and Europe, profoundly changing the farm economies of two continents. Similarly, Louisville and Evansville served as transshipment points on the Ohio River. Memphis grew as the center of the cotton Delta. Little Rock and Fort Smith provided strategic crossings on the Arkansas River.

District Metropolitan Centers



District trade centers soon became manufacturing places as well, though the relative importance of trade and manufacturing varied in each city. Thus, the St. Louis metropolitan area, as the second largest railroad junction point in the country, became a center of food processing and the manufacture of railroad equipment, shoes and chemicals. Over the last decade, it has become the second largest automobile assembly center in the country and a major producer of military aircraft, though its relative share of national manufacturing has decreased from 2 per cent in 1929 to 1.76 per cent in 1954. Louisville and Evansville are major appliance centers, with the largest relative growth in manufacturing shown by Louisville which increased from .38 per cent of the national total in 1919 to .72 per cent in 1954. Memphis and Little Rock have further diversified their industrial base. There have remained, however, striking differences in the relative importance of manufacturing as an urban "export" industry for the national market. Thus, in two district centers of about equal size, Evansville and Little Rock, manufacturing accounted for 64 and 25 per cent of total income payments.

To the extent that district metropolitan areas rely on their rural "hinterland" as a natural market for their goods and services, the large out-migration of farm workers has limited incentives for district urban growth. Conceivably, the national shift from farm to urban employment could have transformed the district economy and its "exports" to the nation through intradistrict migration from the farm to the city. While a good deal of this has happened, as evidenced by district urban growth, much of the rural out-migration has crossed the district line. The district has thus continued to rely on "nonmetropolitan" pursuits to a larger extent than other domestic regions whose metropolitan growth has outpaced the district.

A century ago, St. Louis was twice the size of Chicago. By the turn of the century, this relationship has been reversed, as St. Louis lost its unique transportation advantage as a river port and Chicago emerged as the country's largest railroad and manufacturing center. At that time, St. Louis ranked sixth in the nation as a metropolitan center, following New York, Chicago, Philadelphia, Boston and Pittsburgh. By now, it has been surpassed by Detroit and the Washington-Baltimore area in the East, by Los Angeles and San Francisco in the West. Its former role as a trade center for the whole Southwest is shared by a whole gamut of newer urban complexes, such as Dallas and Houston, some of which have

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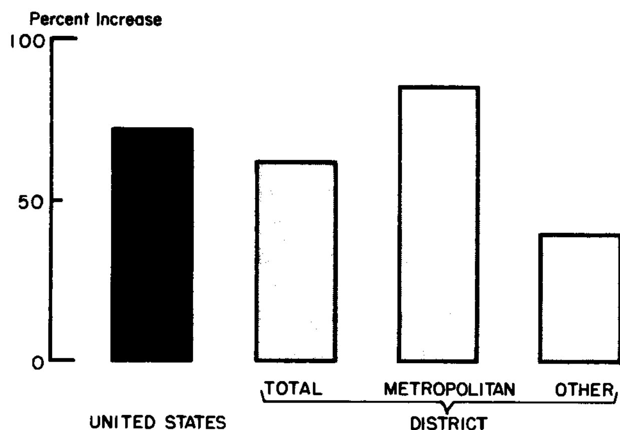
grown more than tenfold since 1900. Over this same time span, St. Louis, Louisville and Evansville have just about doubled their population, while Memphis and Little Rock have increased threefold. In the district as a whole, metropolitan areas have increased by 120 per cent, in contrast with 180 per cent for the nation.

The more rapid gains of metropolitan centers outside the district underline the extent to which the district has retained its traditional function of providing farm and other nonmetropolitan products to the national economy. The district is thus essentially a nonmetropolitan "hinterland" to other more highly urbanized sections of the national economy. In fulfilling this vital function, the district's population growth and income payments have inevitably lagged somewhat behind the average of the nation.



As stressed before in this *Review,* income of district metropolitan areas compares favorably with national trends. Thus, over the decade from 1947 to 1956, district metropolitan income increased by 86 per cent, spearheaded by a 117 per cent gain in Louisville income payments, while nonmetropolitan income gained only 40 per cent. These relative trends for metropolitan and nonmetropolitan income are characteristic of postwar trends throughout the nation, yet nonmetropolitan income, accounting still for 45 per cent of total district income payments, plays a much larger role in the district economy than in most other parts of the nation.

DISTRICT PERSONAL INCOME
(In millions of dollars)

	1956	1947	Per Cent Increase
St. Louis	4,665	2,550	83
Louisville	1,715	790	117
Memphis	881	522	69
Evansville	415	245	69
Little Rock	369	197	87
Springfield	149	92	62
Fort Smith	131	78	68
Metropolitan Areas	8,325	4,474	86
Nonmetropolitan Areas	6,833	4,897	40
TOTAL EIGHTH DISTRICT	15,158	9,371	62

These characteristics of the district economy are important for a number of reasons. First, they go far to explain the relative lag of total district income payments. Second, they suggest that "real" district net income is understated if compared with apparently larger incomes in non-district metropolitan centers as urban residents find much larger demands made on their resources to pay for the social overhead of rapidly increasing business and government services. Third, they also may suggest the magnitude of economic shifts still ahead for the district as its residents are drawn into the nationwide forces of metropolitan ferment.

WERNER HOCHWALD

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Survey OF CURRENT CONDITIONS

Released for publication on March 2

IN JANUARY AND FEBRUARY Eighth District business activity behaved much like that of the nation. The decline in manufacturing activity that began last fall continued, although there were scattered signs of improvement in some lines. Unemployment rose in the district's principal metropolitan areas and the two largest, St. Louis and Louisville, were classified by the Department of Labor in January as areas of substantial labor surplus. During much of February extreme cold interfered with construction and other outdoor work and necessitated a brief curtailment of production at some industrial plants in order to conserve fuel. Bank loan volume declined more than seasonally. Sales at reporting department stores of the district were about 9 per cent smaller in the four weeks ending February 22 than in the same period a year ago.

Much of the decline in Eighth District manufacturing activity has been concentrated in the durable goods industries which have been most affected nationally. Reductions in ordnance production have affected St. Louis, Louisville and several smaller cities of Arkansas and Tennessee. Auto assembly plants in St. Louis, Louisville, Evansville and Memphis have cut production and employment since November. The number of automobiles assembled in the nation during January and the first half of February was more than 20 per cent smaller than the number produced in the same weeks of 1957.

Production of major household appliances, which was well below year-ago levels in January at several district centers, may have picked up somewhat in February, according to reports of recalls of workers at some plants which had been temporarily shut down or on reduced schedules. St. Louis area steel ingot production was 10 per cent higher in February than in January. However, part of the improvement in steel output was attributed to a production adjustment at one mill in order to permit shutting down some equipment for overhaul soon. February output was still 19 per cent smaller than that of a year earlier.

Lumber production has recently shown improvement also. Southern pine output in the month of February was higher than in January or December. Hardwood output improved slightly in February but was smaller than a year ago. The bad weather which began around the middle of the month, however, probably interrupted logging operations.

Unemployment in the St. Louis area was estimated to be more than 7 per cent of the civilian labor force in the middle of January. Total employment had declined by more than 24,000 between November and January. Manufacturing employment declined by 8,500, with all but about 15 per cent of the drop occurring in durable goods plants. The rest of the employment decline was in nonmanufacturing which usually drops sharply after the Christmas shopping season. However, the decline in trade employment was greater than seasonal. Unemployment compensation claims data suggest that St. Louis area unemployment may not have grown further between mid-January and mid-February.

During the two months ended February 19 bank loans contracted more than usual in the district as well as in the rest of the nation. Total loans at district weekly reporting banks declined $137 million, or 8 per cent as all major loan categories were down. Commercial and industrial firms accounted for most of the reduction in loan volume, with a decline of $95 million, or 11 per cent, in their debt to the reporting banks. During the like period last year they reduced their indebtedness about 6 per cent. Despite the large decline, these firms added to their outstanding loans during the week ended February 19. In the two months processors and distributors of agricultural products, sales finance companies and trade concerns made the largest net repayments, aggregating more than $90 million. In most part the reduction by sales finance companies reflected repayments of heavy bank borrowing by these firms in December. Declines in loans to manufacturers of food, liquor, tobacco, metals and metal products and to trade concerns probably reflected some inventory trimming. Manufacturers of textiles, apparel and leather, petroleum, coal, chemicals and rubber added on balance; however, the additions were less than average for this time of year.

Consumers also reduced their outstanding indebtedness in the period as indicated by a $36 million, or 7 per cent, decline in "other," largely consumer, loans. Preliminary data show that outstanding amounts of

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all types of consumer paper were reduced in January. Automobile paper and personal instalment loans showed substantially larger repayments in January this year than during January 1957.

Time deposits of all district member banks continued to expand; at the end of January these deposits amounted to $1.4 billion, or 7 per cent higher than at the end of January 1957. In total, growth in time deposits in the twelve months ending January 31, 1958 was slightly less than during the like period a year earlier; however, at banks in the smaller urban areas the rate of saving in the current twelve months was somewhat more pronounced than during the like months ending January 1957.

The changes in Eighth District business activity have been taking place against a background of, or rather as part of, a national recession. Between the third and fourth quarters of 1957, total gross national product declined $7.4 billion (seasonally adjusted annual rate). Industrial production dropped 8 per cent from August of last year to January with durable manufacturing declining by 12 per cent. Total civilian employment declined 4.2 million in the same period, and unemployment increased by 1.9 million, to 4.5 million at mid-January.

Despite the contraction of business activity, total personal income declined by but $3.7 billion (annual rate), or about 1 per cent, between August and January. Over the period a $5.1 billion decline in labor income (wage and salary disbursements and other labor income) was partially offset by a $2.1 billion increase in transfer payments (which include unemployment compensation), while other types of income showed little change.

Some of the principal influences in the business downturn are a reduction in business spending for plant and equipment, a shift of emphasis in the defense program from conventional ordnance and aircraft to other types of weapons, a shift of consumer spending away from durable goods (especially automobiles) toward nondurables and services, and a reduction of business inventories. All of these changes in demand for current production have had their greatest direct effects upon durable goods manufacturing, and upon the mining and transportation activities associated with production of durable goods. In the previous two recessions the national economy adjusted to demand changes of comparable magnitude and gross national product turned up after declining for less than a year in each instance.

One of the keys to whether or not the current recession will be worse than the two preceding ones is the behavior of consumers. Total retail sales, seasonally adjusted, declined slightly between August and December but increased in January to the August level, according to preliminary estimates. However, department store sales declined in February and sales of new automobiles continued to show marked weakness in terms of numbers sold. The number of new cars sold in early February was nearly 30 per cent smaller than the number sold in the same period of 1957. It is interesting to note, however, that used car sales in January were nearly at the year-ago rate, and sales of imported cars and one domestically produced small car were considerably higher than last year.

Investment spending is another major determinant of the economy's course. While business spending for plant and equipment and inventories is currently lower than it was last year, expenditures for new construction have continued at a high level after seasonal adjustment. Outlays for new construction put in place in January were about the same as in December and were above the average for the year 1957, the highest on record. The declines in interest rates which have occurred since November could be expected to encourage maintenance of expenditures for construction, since construction activity in the past has been somewhat sensitive to interest rate changes. Private residential building in particular has shown wide changes in volume as availability of mortgage funds has varied. Private nonfarm housing starts in January increased to a 1.03 million annual rate, seasonally adjusted. Applications for F.H.A. commitments also showed a marked increase in that month.

On February 19 the Board of Governors of the Federal Reserve System, in a move to make additional reserves available to the banking system, reduced by ½ of 1 percentage point reserves required to be maintained by member banks of the Federal Reserve System against demand deposits. This action was expected to release about $500 million from required reserves. For Central Reserve City Banks the reduction from 20 per cent to 19½ per cent of net demand deposits would release about $125 million of reserves. At Reserve City Banks, the reduction from 18 per cent to 17½ per cent would release about $195 million, and at Country Banks the change from 12 per cent to 11½ per cent would release approximately $180 million. For Central Reserve City and Reserve City Banks, the effective date for the new requirements is February 27, 1958, and for Country Banks, March 1, 1958. Increasing the reserves available to the banking system should enable banks to increase their investments and their loans if credit-worthy opportunities appear.

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VARIOUS INDICATORS OF INDUSTRIAL ACTIVITY

	Jan. 1958	Jan. 1958* compared with Dec. 1957	Jan. 1957
Steel Ingot Rate, St. Louis area (Operating rate, per cent of capacity)	72	+20%	—24%
Coal Production Index—8th Dist. (Seasonally adjusted, 1947-49=100)	75.1 p	+ 1	—10
Crude Oil Production—8th Dist. (Daily average in thousands of bbls.)	391.3	— 1	— 1
Freight Interchanges RRs—St. Louis (Thousands of cars—25 railroads—Terminal R. R. Assn.)	89.8	+ 2	—11
Livestock Slaughter—St. Louis area (Thousands of head—weekly average)	94.4	— 7	—18
Lumber Production—S. Pine (Average weekly production—thousands of bd. ft.)	194.8	+ 7	— 5
Lumber Production—S. Hardwoods (Operating rate, per cent of capacity)	69	+13	—17

* Percentage change is shown in each case. Figures for the steel ingot rate, Southern hardwood rate and the coal production index show the relative percentage change in production, not the change in index points or in percents of capacity.

p—Preliminary.

BANK DEBITS[1]

Six Largest Centers:	Jan. 1958 (In millions)	Jan. 1958 compared with Dec. 1957	Jan. 1957
East St. Louis—National Stock Yards, Ill.	$ 155.5	— 6%	— 4%
Evansville, Ind.	201.9	+ 9	— 1
Little Rock, Ark.	216.6	— 1	+ 6
Louisville, Ky.	926.5	— 5	+ 4
Memphis, Tenn.	950.4	+ 2	+ 8
St. Louis, Mo.	2,523.0	— 5	-0-
Total—Six Largest Centers	$4,973.9	— 3%	+ 2%
Other Reporting Centers:			
Alton, Ill.	$ 39.7	— 4%	+ 2%
Cape Girardeau, Mo.	19.8	+10	—10
El Dorado, Ark.	32.3	-0-	-0-
Fort Smith, Ark.	61.6	+ 3	— 2
Greenville, Miss.	33.6	+ 9	+ 4
Hannibal, Mo.	12.3	— 1	+ 6
Helena, Ark.	11.6	—20	+ 6
Jackson, Tenn.	26.7	— 4	— 7
Jefferson City, Mo.	122.9	+40	— 2
Owensboro, Ky.	54.7	— 5	— 4
Paducah, Ky.	29.7	— 9	+ 2
Pine Bluff, Ark.	52.0	—16	+11
Quincy, Ill.	45.0	— 4	+ 4
Sedalia, Mo.	19.2	+ 9	+ 8
Springfield, Mo.	112.8	+12	+14
Texarkana, Ark.	22.0	— 2	+ 7
Total—Other Centers	$ 695.9	+ 5%	+ 3%
Total—22 Centers	$5,669.8	— 2%	+ 2%

INDEX OF BANK DEBITS—22 Centers

Seasonally Adjusted (1947-1949=100)

1958 Jan.	1957 Dec.	1957 Jan.
178.4	174.2	174.6

[1] Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

EIGHTH DISTRICT WEEKLY REPORTING MEMBER BANKS

(In millions of dollars)

Assets	Feb. 19 1958	Change from Jan. 22 1958
Loans[1]	$1,572	$—68
Business and Agricultural	816	—45
Security	47	— 3
Real Estate	278	— 1
Other (largely consumer)	458	—19
U.S. Gov't. Securities	907	+30
Other Securities	225	-0-
Loans to Banks	39	+ 1
Cash Assets	877	—12
Other Assets	44	— 3
Total Assets	$3,664	$—52
Liabilities and Capital		
Demand Deposits of Banks	$ 717	$—24
Other Demand Deposits	1,967	—37
Time Deposits	617	+17
Borrowings and Other Liab.	63	—10
Total Capital Accounts	300	+ 2
Total Liab. and Capital	$3,664	$—52

Principal Changes in Commercial and Industrial Loans[2]

Business of Borrower	Net Change During 4 Weeks Ended 2-19-58
Manufacturing and Mining:	
Food, liquor and tobacco	$—12
Textiles, apparel and leather	+ 6
Metals and metal products	-0-
Petroleum, coal, chemicals and rubber	+ 1
Other	-0-
Trade Concerns:	
Wholesale	+ 1
Retail	— 1
Commodity dealers	— 8
Sales finance companies	—24
Public Utilities (including transportation)	— 5
Construction	+ 1
All Other	— 2
Total	$—43

[1] Loans are adjusted to exclude loans to banks; the total is reported net; breakdowns are reported gross.

[2] Changes in business loans by industry classification from a sample of banks holding roughly 90% of the total commercial and industrial loans outstanding at Eighth District weekly reporting member banks.

CASH FARM INCOME

(In thousands of dollars)	Dec. 1957	Percentage Change: Dec. '57 from Dec. '56	Jan. thru Dec. 1957 compared with 1956	1955
Arkansas	$ 83,518	+43%	—16%	— 5%
Illinois	105,778	—31	— 1	+11
Indiana	67,282	—22	+ 1	+ 4
Kentucky	160,482	— 5	+ 1	+ 5
Mississippi	66,067	+24	—24	—20
Missouri	84,171	—11	— 5	+ 4
Tennessee	68,518	+ 1	— 8	— 2
7 States	635,816	— 7	— 5	+ 2
8th District[1]	357,816	+ 2	—10	— 2

Source: State data from USDA preliminary estimates unless otherwise indicated.

[1] Estimates for Eighth District revised based on 1954 Census of Agriculture.

CONSTRUCTION CONTRACTS AWARDED IN EIGHTH FEDERAL RESERVE DISTRICT *

(Value of contracts in thousands of dollars)

	Dec. 1957	Nov. 1957	Dec. 1956
Total	$68,116	$84,252	$76,103
Residential	29,713	38,826	25,530
Nonresidential	23,396	24,044	33,515
Public Works and Utilities	15,007	21,382	17,058

* Based upon reports by F. W. Dodge Corporation.

DEPARTMENT STORES

	Net Sales: Jan. 1958 compared with Dec.'57	Jan.'57	Percentage of Accounts and Notes Receivable Outstanding Dec. 31,'57, collected during Jan.: Instl. Accounts	Excluding Instalment Accounts
8th F.R. District Total	—56%	— 2%	16%	51%
Fort Smith Area, Ark.[1]	—61	— 2	......	39
Little Rock Area, Ark.	—56	+ 2	......	29
Quincy, Ill.	—59	— 2	......	......
Evansville Area, Ind.	—63	—18	......	......
Louisville Area, Ky., Ind.	—63	— 2	16	41
Louisville (City)	—61	— 4	......	......
Paducah, Ky.[1]	—59	— 4	......	......
St. Louis Area, Mo., Ill.	—54	+ 1	17	63
St. Louis (City)	—51	— 2	......	......
Springfield Area, Mo.	—61	-0-	......	......
Memphis Area, Tenn.	—55	— 8	11	34
All Other Cities[2]	—57	— 5	......	......

[1] In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

[2] Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Owensboro, Kentucky; Chillicothe, Missouri; Greenville, Mississippi; and Jackson, Tennessee.

Outstanding orders of reporting stores at the end of January 1958, were one per cent higher than on the corresponding date a year ago.

INDEXES OF SALES AND STOCKS—8TH DISTRICT

	Jan. 1958	Dec. 1957	Nov. 1957	Jan. 1957
Sales (daily average), unadjusted[3]	100	238	163	101
Sales (daily average), seasonally adjusted[3]	132	141	135	133
Stocks, unadjusted[4]	n.a.	134	169	133
Stocks, seasonally adjusted[4]	n.a.	149	151	149

n.a. Not available.

[3] Daily average 1947-49=100

[4] End of Month average 1947-49=100

Trading days: Jan., 1958—26; Dec., 1957—25; Jan., 1957—26.

RETAIL FURNITURE STORES

	Net Sales: Jan. 1958 compared with Dec.'57	Jan.'57
8th Dist. Total[1]	—44%	+ 4%
St. Louis Area	—46	+ 2
Louisville Area	—46	— 1
Memphis Area	—44	+22
Little Rock Area	—57	+19
Springfield Area	—31	+11

[1] In addition to the following cities, shown separately in the table, the total includes stores in Blytheville, Fort Smith, Pine Bluff, Arkansas; Owensboro, Kentucky; Greenwood, Mississippi; Evansville, Indiana; and Cape Girardeau, Missouri.

Note: Figures shown are preliminary and subject to revision.

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