The Economic Ascent of the Hotel Business

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Second Edition

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6 The US Economic Structure and Hotel Business: 1945–1960

Introduction

During the 15-year period to 1960, the structural balance of the US economy ascended towards service businesses rocketing the growth in hotel supply and demand and boosting the presence of hotel chains. In parallel, other economies and hotel businesses struggled to shake off the calamities of World War II and the legacy of the other critical events of the previous half century. In the US, the four factors necessary to progress the structural balance of an economy towards service businesses progressed.

- Civil and human rights were extended. In 1954, the Supreme Court ruled racial segregation in public schools to be unconstitutional, although the ruling was ignored in many southern states. In 1950, only 29% of the labour force was female, but as the structure of the economy moved towards service businesses so the total number of women employees grew as did the proportion of women entering further and higher education.
- The social sciences expanded in university teaching and research and their application to social and business life increased.
- The personal capital markets expanded. The increase in the level of personal credit was facilitated by the high levels of employment. Secured loans were extended with the growth in home ownership, unsecured loans increased to buy consumer durables and towards the end of the period, credit cards were introduced.
- Personal travel grew with the significant increase in automobile ownership and the expansion of airline travel.

Importantly, the development in the structure of the US economy during the post-war period was facilitated because the public services segment was regarded as a short-term and shrinking safety net for the most vulnerable in the economy and not as a long-term and growing economic segment. Consequently, during the post-war period, service businesses in the US grew in both size and range at a much faster rate than in any other economy and established the American lifestyle as different from and more diverse than in any other country. In parallel, growth in domestic business demand and domestic vacation demand into hotels boomed, which in turn produced accelerated growth in hotel supply and in hotel concentration. For these reasons, the post-war period was a landmark for the economic ascent of the hotel business in the US.

US economic structure and hotel demand

The post-war economy took off, not only in its rate of growth, but also in its diversity as it made the transition from military back to civilian mode. It sustained low levels of unemployment, which remained less than 4% between 1948 and 1953 (US Bureau of Economic Analysis). The population grew by 22% to 186 million over the 15-year period, led by immigration and the baby boom while consumer spending grew by more than in any other country. The structural development of the economy evolved, the proportion of white-collar and professional employees grew faster than blue-collar workers and this generated growth in both business and vacation demand into hotels. The 97 million total hotel room nights sold in 1945 escalated to 258 million by 1960, an average annual growth of 7%. Of course, this exceptionally strong growth is flattered by the low level of demand in 1945 and the dynamic of the post-war period is expressed more realistically by the average annual growth in hotel demand of 4% over the 1950s with the addition of 82 million room nights. Domestic business demand into hotels grew from 54 million room nights in 1950 to 77 million in 1960 as public services, service businesses and experience businesses increased their share of employment as other sectors declined. Hotel chains captured the lions' share of business demand by locating their hotels in the cities where that market needed to be. Over the period, agricultural employment declined and industrial employment was the slowest growing segment, whereas public services and service and experience businesses, the higher yielding segments for domestic business demand into hotels, grew faster, as recorded in tables 6.1 and 6.2.

Table 6.1: Employment by segment in US: 1950 –1960 (millions)

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1950	5.0	17.0	9.0	18.0	49.0
1960	4.9	19.2	11.4	23.7	59.2

Source: US Department of Labor, Otus

Table 6.2: Employment by segment in US: 1950–1960 (percentage)

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1950	10%	35%	18%	37%	100%
1960	8%	32%	19%	40%	100%

Source: US Department of Labor, Otus

Agricultural demand into hotels

Employment in agriculture continued its long-term decline during the 1950s and fell by 50,000 to 4.9 million. Otus estimates that in 1950, agriculture generated two million rooms nights in US hotels, a 3% share of total domestic business demand. The dominant reason to travel was to sell agricultural products. During the 1950s, agricultural productivity rose to meet demand from the growing population and exports, but the decline in agricultural employment had little impact on the demand it generated for US hotels as business travel increased as it competed to sell its products. By 1960 agricultural demand into US hotels had grown only marginally but, its share of total domestic business demand fell to 2% as the other segments grew at a faster rate.

Industrial demand into hotels

In 1950, industrial employment in the US totalled 17 million and accounted for 35% of the workforce. The main reasons for business travel was selling products and delivering products from which they generated mostly transient rooms demand of 19 million room nights for a 35% share of total domestic business demand. Over the 1950s, 2.2 million was added to the industrial workforce and the consumer goods base of manufacturing diversified to produce and sell more and a greater range of goods.

This was a reflection of the white middle-class enthusiasm for household goods such as washing machines, refrigerators, dishwashers, vacuum cleaners and central heating, which reduced the time and effort needed to keep house. It was paralleled by the attraction and availability of radio, television, record players and telephones, which extended the patterns of in-home entertainment and delivery of information. At the end of World War II there were around 17,000 televisions in the US. By 1950, 10 million US homes had a television, but by 1960, 87 million homes had a television (Bunch and Hellemans, 2004). The progress did not end there. Major items of family expenditure also grew. In 1950, 55% of families owned their home; by 1960 the proportion had increased to 62% (US Census Bureau). In 1950, 59% of households owned an automobile and by 1960, the proportion had increased sharply to 73% (*Gale Encyclopaedia of American Industries*, 2005). The range and volume of household goods expanded as did the proportion of the population owning a wide range of household goods so that the material standard of living and the in-home style of life were enhanced, substantially, but that was not all. Over the period, repeat purchases were fuelled by the built-in obsolescence of many consumer goods as well as the expansion of TV, radio and other advertising. The high level of employment in the economy as a whole and the loosening of the personal capital markets were key factors in the escalation of demand for household goods.

The intensifying competition among US manufacturers for share of the growing markets and the on-going growth in concentration among manufacturers produced larger companies with larger corporate structures and wider geographic reach. The increase in productivity was achieved by the improvements in work practices and the introduction of manpower efficient technology, which produced a reduction