vancing. Partly because of the lagged effects of the World War II and Korean War inflations on the book values of the stock of real capital, depreciation charges were higher in relation to sales than in earlier postwar periods of rising economic activity. A widespread rise in prices of industrial commodities erupted in mid-1955 and a price-cost spiral was set in motion.

By the spring of 1956, the rise in business capital expenditures—which had been stimulated partly by the surge of consumer buying in 1954–55—reached boom proportions. Total spending by government was also rising. Economic activity abroad continued to increase and foreign demands for United States products gained further in strength. Meanwhile, some categories of demand were increasing less rapidly than earlier and still others, such as demands for autos and new houses, declined.

Curtailments in output in some of these lines in 1956 released resources and thus permitted expansion elsewhere. Unemployment remained low. For the most part, pressure of demands against capacity in basic industries was maintained. The capital goods industries depend on many of the same materials and types of labor as are required in the auto industry. Similarly, industrial and commercial construction use essentially the same labor and some of the same materials consumed in residential construction.

In the industries producing basic metals, for example, the operating rate was about 93 per cent of capacity in mid-1955, when the advance in prices became widespread among industrial commodities. By the end of 1955, the rate was up to 97 per cent. New capacity was being installed in these industries during 1956, and at least some of it became fully available for production during that year. While rated capacity increased 4 per cent from the end of 1955 to the end of 1956, output rose 3 per cent, so that the year-end operating rate was 96 per cent. Some other industries producing basic materials also maintained very high operating rates.

Expectations of continuing prosperity remained strong in 1956, despite decreases in sales of autos and housing. The decrease in automobile sales came to be regarded as a normal falling-off from the extraordinarily high levels of 1955, and expectations in the industry and elsewhere were for a renewed rise after introduction of new models toward the year-end. The capital goods boom that began in 1955 continued through 1956 and into 1957.

Price and wage developments in 1956, then, were dominated by strong demands, by shifts in the composition of demands for finished durable goods, and by ebullient expectations. Prices of a few sensitive materials declined: prices of lumber declined after February 1956 in response mainly to the decrease in residential construction; and in the spring of that year, copper prices began to decline—from very high levels associated with strikes—as supplies caught up with demand. Prices of most industrial commodities, however, continued to increase.

In lagged response to the inflationary developments begun in 1955, moreover, the consumer price index began to rise in early 1956. This rise resulted in wage increases based on escalation clauses in existing contracts and intensified demands for other large wage increases. In the summer, long-term contracts negotiated in the steel, aluminum, and some other industries, provided for liberal annual increases in wages and fringe benefits and automatic cost-of-living adjustments.

In early 1957, prices of industrial commodities rose further—reflecting partly a working through of earlier increases in prices of materials and other costs and partly the fact that the expectations of inflation continued to be widespread. Concurrently, rising prices were limiting sales, and inventories were increasing. After nearly three years of expansion, the seeds of recession—invariably sown in a boom—were beginning to germinate.

By the autumn of 1957, wholesale prices of industrial commodities had risen about 10 per cent from the early 1954 level, the total wholesale index 7 per cent, and the consumer price index 6 per cent. Given the strength of demands and the optimistic nature of expectations, increases of these magnitudes over a three- to four-year period are perhaps not extraordinarily large. Nevertheless, the rise in prices would have been larger had monetary policies not been restrictive. Developments through the period emphasize the need for vigorous efforts to contain the growth in demands for credit and for goods and services during periods of economic expansion and to prevent the generation of a climate of expectations conducive to widespread advances in prices and costs.