THE COST-OF-LIVING
WAGE ESCALATORS**

1. The Consumer Price Index

Eisele, C. Frederick. The Consumer Price Index: description and discussion. Iowa City, Iowa 52242. Center for Labor and Management, College of Business Administration, University of Iowa. 1975. 21 pp. (Center Report Series No. 30.) $1.00.

A review of the construction, uses and limitations of the Consumer Price Index and information on where the data is published.


At these hearings on the revision of the Consumer Price Index, the Commissioner of Labor Statistics presented a detailed statement on the need for changes in the measurement of consumer prices. Representatives of labor unions spoke in opposition to the proposals on the grounds that the revisions would destroy the historical continuity of the Index and undermine its use in collective bargaining wage adjustments.


This handbook contains information on the scope of the programs and the methods employed in the many surveys and studies conducted by the Bureau of Labor Statistics. Chapter 10, “Consumer Prices,” is a detailed description of the Consumer Price Index.

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** Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.

After a brief summary of the origin and development of the Consumer Price Index, this article describes current proposals for expanding and revising the Index. Starting in April, 1977, the Bureau of Labor Statistics will publish two Consumer Price Indexes: an expanded Index for urban wage earners and clerical workers for use in collective bargaining contracts and an Index for all urban households which will provide a measure of price changes for the economy.

2. COST-OF-LIVING CLAUSES IN COLLECTIVE BARGAINING


A review of changes in the extent and characteristics of escalation clauses over the past decade and of the differing views of economists regarding the inflationary potential of cost-of-living adjustments.


Written from a management viewpoint, this article reviews the characteristics and operation of various cost-of-living clauses and suggests strategies for dealing with demands for automatic pay increases.


An exploration of the economic and industrial relations implications of the development of the multi-year contract and wage adjustment formula in collective bargaining. The author examines the early experience in the automobile and steel industries with cost-of-living escalator clauses and compares the wage formula approach with alternative forms of wage determination.

An overall review based on European experience, which evaluates various methods of constructing price indices and applying them to wage adjustment. The author finds that wage indexing has little inflationary or anti-inflationary effect, but that it is a positive factor in an industrial relations system.


This article reviews the history, going back to World War I, of the use of the Consumer Price Index as a means of adjusting wages to rising prices. Particular attention is given to the innovative contracts in 1948-1950 between the General Motors Corporation and the United Auto Workers which led to a rapid expansion of wage escalator agreements.


This paper reviews the prevalence of escalator clauses in labor agreements and analyzes their impact on total negotiated wage changes over the 1968-73 period. The author concludes that automatic cost-of-living adjustments are important to the worker covered by such contracts, but that the direct impact on economy-wide wage levels is comparatively small.


This study analyzes wage changes for workers under contracts with and without escalator clauses and between guaranteed escalators and escalators tied to the Consumer Price Index. The data indicates greater wage gains for workers under cost-of-living clauses compared to workers whose contracts do not include such provisions.


Statistics on the number of workers who will receive deferred increases or cost-of-living adjustments in 1975 with summary information of the provisions of escalator clauses and projections of wage-rate increases.
3. Indexation


A sketch of the historical development of the concept of indexation from its origins in the 18th century to 20th century economists.


Five authors discuss the effectiveness of the widespread use of escalator clauses as anti-inflationary measures. In the first paper, Herbert Giersch presents the arguments for indexation. An appendix summarizes the scope of escalator clauses in various countries. Milton Friedman in his essay contends that the problem of how to end inflation is political, not technical and strongly urges a mandatory system of escalator clauses in government contracts—taxation, borrowing, hiring and purchasing. A shorter version of his paper appeared in the July, 1974 issue of Fortune. William Fellner and Edward M. Bernstein, in separate papers, present theoretical and practical reasons for opposing indexation. The experience of Brazil with general indexing is discussed by Alexandre Kaixa.


The author describes the system of indexing in use in Brazil since 1954 and assesses its consequences for reducing inflation and equalizing income distribution. He concludes that indexing has had little or no influence in reducing Brazilian inflation and that Brazil's experience is not applicable to the United States.


The authors describe the typical index system in which all deferred payments (wages and salaries, interest and principal payments, insurance, pensions, income taxes) are linked to a price index and examine the arguments for and against indexation as a means of mitigating the effects of inflation.