

## Article

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### "Indexation"

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TABLE 3

**Mean Worker Preferences by length  
of service (N = 581)**

	<i>Under 10</i>	<i>10 - 19</i>	<i>20 - 29</i>	<i>30+</i>
	N = 137	N = 87	N = 224	N = 133
<i>Fringe Benefits</i>				
Wages	38.74	36.00	33.56	33.38
Pensions	16.57	19.43	25.11	32.33
Sickness Benefits	22.93	23.10	22.53	16.80
Job Security	13.76	16.05	13.22	9.19

TABLE 4

**Mean Worker Preferences by Pay Rates  
(N = 581)**

	<i>Under 3.00</i>	<i>\$3.00 - 3.44</i>	<i>\$3.50 - 3.99</i>	<i>\$4.00+</i>
	N = 27	N = 148	N = 127	N = 279
<i>Fringe Benefits</i>				
Wages	42.33	34.89	35.44	34.01
Pensions	20.94	22.20	24.24	24.73
Sickness Benefits	19.38	22.39	22.53	19.72
Job Security	13.78	13.22	13.57	11.94

## INDEXATION

Earl F. BEACH

How good is our economic analysis? The subject of indexation supplies an illustration. The effects of inflation are being better understood as more attention is being given to analyzing them. The growing literature on adjusting for the effects of price increases illustrates the strengths and weakness.

The fine analysis of Belzile (1976) teaches us some of the technique of adjustment. The papers by Ascah and Ingerman explain the politics of adjustment. The Economic Council of Canada has commissioned a number of papers that fill in factual background.<sup>1</sup> In all of these six

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<sup>1</sup> See COUSINEAU et LACROIX (1976) and (1977) and also LACROIX et MONTMARQUETTE (1975).

papers, however, there is a glaring omission of an important point of economic theory. Can economic theory have become so specialized that it is not properly integrated into ordinary analysis of economists? There is some evidence of this.<sup>2</sup>

The fault must, at least in part, lie also with the non-theorists.<sup>3</sup> Two years ago, this Journal published an article in which it was explained that «full indexing» tends to over-compensate. In addition to being unfair, it adds to inflationary forces.<sup>4</sup> This very important point is not mentioned by any of the six papers to which reference has been made; all of them assume that there is loss in real income if the CPI increases faster than the average rate of wages or wage income.

The traditional way of estimating changes in real wages has been by using the CPI as a deflator. There has been little alternative, although there should be more recognition that there are biases in this procedure. We can now no longer ignore this matter as a fine theoretical point of no great importance. Pencavel (1977) supplies us with some estimates which show that the over-estimate is substantial indeed. At the beginning of his paper (p. 91), Pencavel notes:

«It is well known that such a Laspeyres index overstates increases in the cost of maintaining a level of utility whenever customers are induced by relative price movements to substitute among the commodities they purchase.»

After extensive and careful calculation, he estimates (p. 100):

«...the *relative* difference between actual and constant-utility nonlabor income over the 1939-67 period increased on the order of 152 percent...»

In deriving his estimate, Pencavel allowed only for the substitution among groups and not within groups. Yet it seems clear that the propensity of consumers to substitute within groups, such as the food group, must be very important. Thus, his estimate is likely to be much too small. The over-compensation by «full indexing» is probably much greater than fifty per cent.

At first, such a high figure seems a bit startling. We are accustomed to adjusting with the CPI as a simple procedure, and pushing aside worries about inadequacy. A little arithmetic, however, with a housewifely budget, and actual changes that have taken place in recent years suggests that it may not be wrong.<sup>5</sup>

<sup>2</sup> See BEACH (1976).

<sup>3</sup> See BEACH (1973).

<sup>4</sup> See BEACH (1974). There have been elaborations in long letters published in *UNIVERSITY AFFAIRS*, July, 1975, and in the *McGILL REPORTER*, April, 1976.

<sup>5</sup> MASLOVE and ROWLEY (1975) found that there was no great distributional effect resulting from differing expenditure patterns when prices rise. They also allowed for substitution only within groups, though they had a rather large number of groups. They were concerned, however, with a matter that is rather different from ours, and the biases of the arithmetic mean should be quite important to their results. See Beach (1974).

## THE OLD AGE PENSION

The Table shows some illustrative calculations of the indexation of the old age pension which has been done on a regular quarterly basis since 1973. The payment in January, 1974, was increased in proportion to the increase in the CPI between the previous two quarters. We have three full years of data.

The first column shows the amount of the payment actually made. The second shows what this payment would have been if it had been increased in proportion to the changes in the CPI each month, using November, 1973 as the base.<sup>6</sup> The next column shows the under-and-over-payments, and the fourth column shows the net by quarter. It is clear that there was characteristically an «underpayment» during the first two years, but a steady over-payment during the last year. This is doubtless related to the acceleration, or change in the rate of increase. Inflation was increasing during the first two years, and slowing during the last one.

We are able to assess some of the ideas that have been in the literature. The lag effect of payment, resulting from the fact that the adjustment is made for past inflation, seems to be of no great importance. Over the three years there has been a net over payment of \$5.02. Relative to the total amount of payment during three years, this is minuscule, of course, but it is an *over* rather than an *under*-payment, as suggested by the lag theory.

The adjustment by quarter reduces the effect of «averaging» which concerned Belzile, working with annual adjustments. However, the impact of the inflation comes in the weekly trip to the grocery store, and there are 12 weeks in a quarter, comparable to the 12 months in the years. In principle, one could take an «average» family and estimate the actual impact in some way as Belzile did. His figures suggested a rather important difference, which our data do not support. In conclusion, it appears that the technical questions that have been of interest to these authors appears to be of less importance than the one that has been neglected.

It is of more importance, in dealing with the O.A.P. to be considering how appropriate the CPI is for this purpose. Would the food index be a more appropriate indicator? It may be noted that the food index has been higher than the general index. For the relevant years, 1974, 5, and 6, the food index has been respectively, 13, 17 and 12 per cent higher. Of course, the increase over 1973 has not been as great as this, but over the years, this difference to the adjustment could be important. The food index has risen much more than any of the other components.

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<sup>6</sup> The Old Age Security Act, Chapter 4 explains the process of adjustment «for a month in any payment quarter...» We took November as the middle of the base quarter, and the corresponding CIP for November. Calculations were rounded in accordance with the practice of the Department of Health and Welfare.

**TABLE 1**  
**Old Age Pension**

	<i>Monthly Payments</i>	<i>Adjusted Payments</i>	<i>Differences Monthly</i>	<i>Differences Quarterly</i>	<i>Differences Yearly</i>
January	108.14	106.67	1.47		
February	108.14	107.72	.42	1.26	
March	108.14	108.77	(.63)		
April	110.04	109.62	.47		
May	110.04	111.41	(1.32)	(3.64)	
June	110.04	112.88	(2.79)		
July	112.95	113.72	(.77)		(9.87)
August	112.95	114.78	(1.83)	(5.16)	
September	112.95	115.51	(2.56)		
October	117.02	116.57	.45		
November	117.02	117.83	(.81)	(2.33)	
December	117.02	118.99	(1.97)		
January	120.06	119.62	.44		
February	120.06	120.46	(.40)	(1.00)	
March	120.06	121.10	(1.04)		
April	123.42	121.73	1.69		
May	123.42	122.78	.64	1.18	
June	123.42	124.57	(1.15)		
July	125.76	126.25	(.49)		(5.82)
August	125.76	127.52	(1.76)	(4.32)	
September	125.76	127.83	(2.07)		
October	129.28	128.99	.29		
November	129.28	130.15	(.87)	(1.66)	
December	129.28	130.36	(1.08)		
January	132.90	130.99	1.91		
February	132.90	131.52	1.38	4.14	
March	132.90	132.05	.85		
April	135.43	132.57	2.86		
May	135.43	133.63	1.80	5.83	
June	135.43	134.26	1.17		
July	137.06	134.78	2.28		20.71
August	137.06	135.42	1.64	4.93	
September	137.06	136.05	1.01		
October	139.39	137.00	2.39		
November	139.39	137.42	1.97	5.81	
December	139.39	137.94	1.45		

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## DROIT DU TRAVAIL

### **L'EFFET DE LA GRÈVE SUR LE CONTRAT INDIVIDUEL DE TRAVAIL : L'AFFAIRE MCGAVIN TOASTMASTER**

Claude D'AOUST

Une décision récente de la Cour Suprême du Canada, dans «l'affaire Mc Gavin Toastmaster» précise l'effet d'une grève illégale sur le contrat individuel de travail et les droits des salariés découlant de la convention collective<sup>1</sup>. Ce jugement a un double intérêt. En premier

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<sup>1</sup> *McGavin Toastmaster Limited v. Ainscough et al.*, Cour suprême du Canada, 22 avril 1975, CLLR, parag. 14,277, confirmant (1974) 3 W.W.R., 144, CLLR, parag. 14,232 (B.C. Court of Appeal) et (1973) 4 W.W.R., CLLR, parag. 14,165 (B.C. Supreme Court).