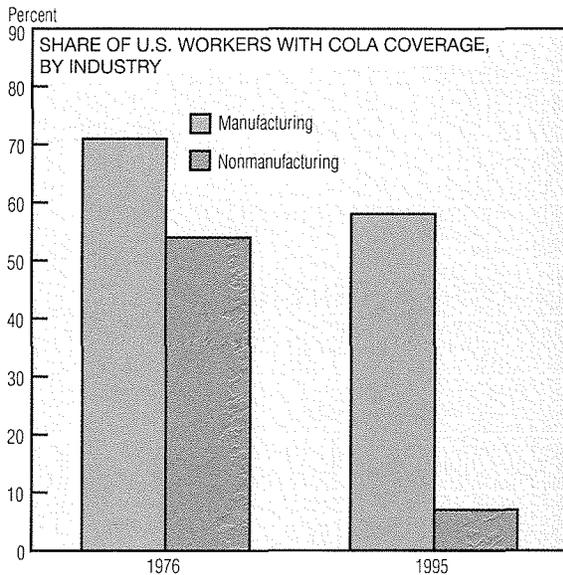
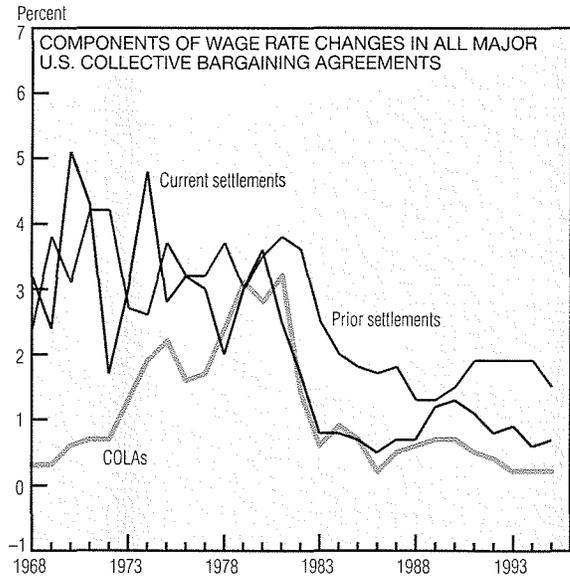
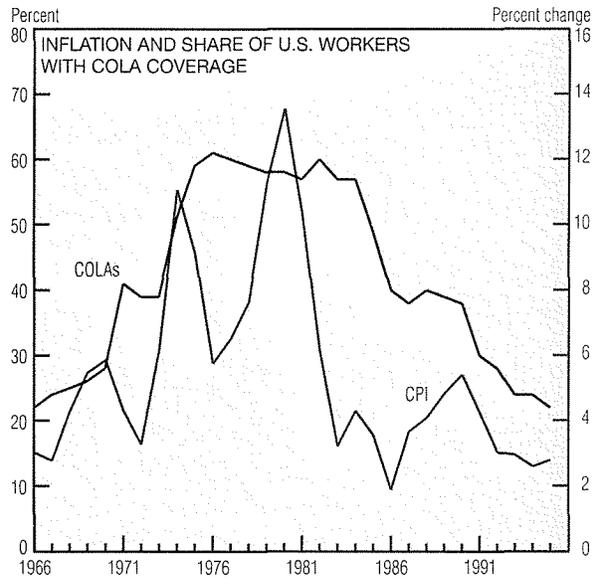


Cost-of-Living Adjustments



COLA Agreements with Active Clauses	
Specific provisions	Percent of contracts with COLA clauses
Wage adjustment per percentage-point change in the CPI	
3.3 cents	36
2.5 cents	20
3.8 cents	14
COLA agreements with caps	20
COLA agreements paid only if the CPI rises above a ceiling level	38

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and The Bureau of National Affairs, Inc., *Collective Bargaining Negotiations and Contracts*, vol. 24, no. 1338 (September 12, 1996).

Cost-of-living adjustments (COLAs) are contract clauses that explicitly tie wages and benefits to the inflation rate. They arrange for automatic (often quarterly) wage increases that depend on the rise in a specific price index (generally the Consumer Price Index for urban wage earners, or CPI-W). Because COLAs are fairly simple provisions to write, they might seem a relatively costless way to adjust for inflation.

The data suggest otherwise. COLA provisions were included in a small fraction of the major U.S. col-

lective bargaining agreements written during the 1960s, when inflation was low. During the double-digit inflation of the 1970s, the share of workers with COLA coverage rose dramatically. If COLAs were costless, one would expect them to be incorporated in labor agreements indefinitely. However, once inflation rates slowed and it was clear that they would remain low, most collective bargaining agreements no longer included COLA provisions.

Currently, the share of U.S. workers covered by COLAs is at a record

low, with these adjustments making up a tiny fraction of the wage rate changes resulting from collective bargaining agreements. COLA coverage has dropped in all industries, including manufacturing, where such provisions have historically played a large role. Even where present, current COLA clauses only partially insure against inflation. A 10% increase in the CPI-W will mean a wage adjustment of less than 40 cents per hour in the vast majority of U.S. labor agreements.