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## **Major provisions of Labour Contracts and Theoretical Coherence<sup>1</sup>**

### **Abstract**

I have obtained the Human Resources Development Canada wage agreements data from 1976 to 2001. The data consists of information on approximately 12,000 collective bargaining agreements spanning all aspects of economic activity, including the public and private sector. In this paper, I examine how collective bargaining outcomes in Canada (including all agreements reached since 1976) have responded to the structure of price inflation within which they were achieved, taking into account the interrelations among various factors that contributed to these outcomes. In particular, I propose to study: (a) the determinants of non-contingent wage adjustment, their evolution over a contract and through successive contracts and their impact on nominal and real wage rates, (b) the incidence and the strength of COLA Clauses and the evolution of these variables over time, (c) the duration of contracts signed by parties and its behaviour through time, and (d) the effects of wage control policies on bargaining outcomes focusing particularly on their effects on public and private wage differentials. These objectives will be pursued recognizing that agents maintain long-term relationships through successive contracts.

Theoretical work on indexation and contract duration suggests no role for the expected rate of inflation in equations explaining these variables. Yet, stand-alone or two-equation studies of indexation and contract duration often report that this variable is statistically significant. The paper studies a wider econometric system which includes, in addition, non-contingent wage adjustment. This third, jointly dependent, variable and its nominal anchor (the expected rate of inflation) play a role in the duration and indexation decisions and offer a context within which earlier findings can be considered. In this three-equation system, the wage equation accommodates complex mechanisms through which inflation feeds into wage adjustments both within and across contracts. The elasticity of indexation is modeled as a latent variable, supporting consideration of both the incidence and the intensity of indexation and linking consistently with the wage equation. The results indicate that there is no role in the duration equation for expected inflation per se. Only a minor role for it remains in the elasticity of indexation equation. The challenge for theory is not so much to justify a major role for the expected rate of inflation, but to provide more complete models of how these three major aspects of labour contracts are linked.

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