



**COLA Lite: Ready's
inflation adjustment for
Sea-to-Sky bus workers**

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BC's public sector unions are currently locked in negotiations with the province over new collective agreements covering much of BC's public sector. A key area of contention across several tables – in health care, education, and the provincial public service – is the rising level of price inflation overtaking the provincial economy. It is this situation that has many unions taking a new look at using cost-of-living adjustment (COLA) clauses as a hedge against unpredictable increases in consumer prices. The response from BC's government to the call for negotiated COLAs has been less than enthusiastic. As things currently stand, there is no clear mandate guidance from BC's Public Sector Employers' Council (PSEC) for employers to include these kinds of provisions in new collective agreements.

COLA clauses

COLA clauses were once a common component of collective agreements. In the high-inflation period of the mid-1970s to early 1980s, many unions and their employers relied on COLAs to temper the impact of price instability on contract negotiations. COLAs do this by linking the determination of wage levels to movement in prices, with the latter typically measured by Statistics Canada's *Consumer Price Index*.

To see how this has been done, we can look at contents of the book *Contract Clauses* by Ethan Poskanzer and Jeffrey Sack, a standard reference on Canadian collective agreement provisions that has gone through successive editions.¹ Poskanzer and Sack dissect the various elements that together comprise a COLA: how wages are linked to measures of inflation, when an increase is triggered, how the increase is calculated and whether (or not) it gets folded into underlying wage rates. Poskanzer and Sack's discussion underlines the type of connection COLAs typically make between wages and movement in price indices, noting that,

“ Provision may be made for advance payment of COLA, payment of COLA in each year of the contract, and adjustments at variable periods within the contract year.” (p. 16-33)

For the authors, the expectation was that, to be effective, COLAs had to specify a close relationship between the two variables timewise. In effect, COLAs were meant to have wage levels track inflation, whether in whole or in part, and in a dynamic way that delivers inflation protection to workers.

COLAs fell out of favour starting in the 1980's as central banks moved to cut inflation with restrictive monetary policies. Through the balance of that decade and beyond and as the economy entered a sustained period of low inflation, COLAs were increasingly dropped from collective agreements. Those that remained fell largely dormant as rates of price increase failed to trigger embedded wage adjustment provisions. This much is confirmed in a study by Canada's Department of Social and Economic Development which showed only a small percentage of collective agreements still having COLAs by 2014, with the heaviest concentration within the private sector.² Public sector COLAs and in particular those that still functioned, had become something uncommon, particularly within the province of British Columbia.

¹ Ethan Poskanzer and Jeffrey Sack, *Contract Clauses*, (Toronto: Lancaster House, 1996), pp. 16-33 to 16-43.

² Employment and Social Development Canada, "The role of COLA clauses in low inflation times," 2015. Downloaded June 20, 2022 at www.publiccentre.esdc.gc.ca.

The Sea-to-Sky Transit COLA

This started changing as a result of strike action taken by bus workers in BC's Sea to Sky corridor. Represented by Unifor Local 114, 90 drivers, maintenance workers and cleaners in January of 2022 narrowly rejected a tentative five-year settlement with the contracted service provider and settled in for action on the picket line. In late May, veteran mediator Vince Ready was brought in to broker a settlement and get the buses running again. A key part of Ready's recommendations involved a cost-of-living adjustment provision (COLA) to deal with the vexing issue of rising inflation and its expected impact on wages. Suddenly COLA clauses had gained a new lease on life, not just for Sea-to-Sky bus workers but potentially for other workers across the province.

Ready recommended the existing five-year wage offer be carried over into the new collective agreement.³ In addition and in order to "break the logjam and conclude collective bargaining", he added the following:

"... a cost of living payment will be allocated to each employee effective April 1, 2024, subject to the provisions of this section. This payment will be based on the British Columbia Monthly Consumer Price Index published by Statistics Canada and as calculated using Table: 18-10-004 (hereinafter referred to as the CPI) as follows:

The year-over-year monthly CPI increase in each month from April of 2021 through March of 2024 shall be averaged and compared with the average in wage increases identified in Article 18.00 over the three (3 years) from April 1, 2021 to March 31, 2024. In the event the aforementioned average CPI increase exceeds the average annual increase for the three-year period, the company shall add this difference to the percentage wage increase identified in Article 18.00, effective April 1, 2024.⁴ (emphasis added)

The wording of the COLA provision is curious in that, unlike earlier iterations of the type outlined by Poskanzer and Sack, it lacks a timely connection linking the clause and its trigger to the movement in prices. Rather, the above-worded recommendation established a three-year backward averaging comparison of wage and price increases to be conducted only after the start of the fifth and final year of the new agreement. What we can label the "comparison period" centres on Years 2 through 4 of the collective agreement and forms the basis of a one-time retroactively-calculated Cost-Of-Living Adjustment to be added to collective agreement wage levels in the final year. Nowhere here is there an effort to measure directly where wages and prices stand in relation to each other at the point where the COLA-triggered increase is set to take effect.

The provision has been touted as offering COLA-based inflation protection to workers covered by the agreement, with Unifor suggesting that the Sea-to-Sky agreement "set(s) the standard for workers across British Columbia."⁵ How accurate is this? And what can the Local 114 COLA realistically be expected to deliver?

³ The agreement includes regular wage increases in each of its five years, of 1.5% in Year 1, 2% in Year 2, 3% in each of Years 3 and 4, and 4% in Year 5. These increases compound to a cumulative increase of 14.2% over the five years, apart from any additional COLA calculation.

⁴ Available at: <https://www.unifor.org/sites/default/files/documents/Local%20114-Vince%20Ready%20Recommendations.pdf> p. 7. Accessed June 19, 2022.

⁵ Unifor media release "Sea to Sky transit workers headed back to work after winning cost of living considerations," dated June 14, 2022. Accessed at <https://www.unifor.org/news/all-news/sea-sky-transit-workers-headed-back-work-after-winning-cost-living-considerations>, June 21, 2022.

Taste-testing Ready's COLA

Given the nature of Ready's COLA recommendation, it is useful to evaluate it using a series of tests. In what follows, we examine how the provision would trigger additional wage increases under three different inflation scenarios. These scenarios are as follows:

1. Inflation stabilizes at current levels and remains there for the duration of the three-year comparison averaging period and on to the end of the collective agreement.
2. Inflation subsides from current levels starting in Year 3 of the comparison period, returning to an annual level of 4.4 per cent by March of 2024, close to where it was at the start of 2022. It stays at this level until the end of the collective agreement.
3. Inflation continues to increase from current levels over the balance of the comparison period, reaching an annual level of 10 per cent by March of 2024 where it stays until the end of the collective agreement.⁶

For each of these scenarios, the wage-price comparison period as set by Ready is the 36-month interval running from April 2021 to March 2024 which coincides with Years 2 through 4 of the new collective agreement – the “comparison period.” Summaries of the calculations for each scenario are found below. Detailed calculations for each scenario are found in Appendix A of this report.

Scenario 1: Stable inflation at current levels of 8.1% from May, 2022 onwards

A. The average monthly increase in prices over the 36-month comparison period is:	6.6%
B. The average monthly wage increase over the 36-month comparison period is:	2.7%
C. The difference (A-B) is: This is the calculated value of the COLA as per the Ready formula.	3.9% points
D. Total wage increases including COLA over the 5-year term of the collective agreement are:	18.7%
E. Total price increases (actual and projected) over the course of the 5-year term of the collective agreement (BC CPI, Mar-2020 to Mar-2025 as per SC Table: 18-10-004)	36.5%
Difference (D-E) A minus % represents a lag in wages behind inflation	-17.8% points

⁶ This high-inflation scenario would put BC in line with where some European countries are right now. Inflation in the UK and Belgium currently (May-2022) exceeds 9 per cent and is trending up. While the inflation rate for the entire European Union was at a slightly more modest level of 8.8 per cent in May, there are 12 member states (most of which are in the east) that already have inflation levels in the double digits.

<https://www.statista.com/statistics/225698/monthly-inflation-rate-in-eu-countries/>. Accessed June 23, 2022.

If prices level out at the May, 2022 level (8.1% annual, BC CPI), workers' wages will lag prices at the end of the collective agreement in 2025 by a total of 17.8% points.

Scenario 2: Inflation tapers after May 2022 back to a level of 4.4 % by the end of the 36-month comparison period, where it was at the start of 2022. It stays at this level until the end of the collective agreement.

A. The average monthly increase in prices over the 36-month comparison period is:	5.4%
B. The average monthly wage increase over the 36-month comparison period is:	2.7%
C. The difference (A-B) is: This is the calculated value of the COLA as per the Ready formula	2.8% points
D. Total wage increases including COLA over the 5-year term of the collective agreement are:	17.4%
E. Total price increases (actual and projected) over the course of the 5-year term of the collective agreement (BC CPI, Mar-2020 to Mar-2025 as per SC Table: 18-10-004)	25.5%
Difference (D-E) A minus % represents a lag in wages behind inflation	-8.1% points

This is a scenario or projection similar to that currently offered up by central bank officials, mainstream economists and some media pundits who see rising inflation as a transitory phenomenon.⁷ It is an optimistic expectation. However, we can see that even if price increases start to decelerate after May, 2022 and return to the range where they were at the start of 2022 by the end of the collective agreement in 2025, workers' wages will still lag prices by a total of 8.1% points over the duration of the collective agreement.

⁷ See the discussion found at: <https://www.cbc.ca/news/business/inflation-rogers-column-don-pittis-1.6497296>. Accessed June 23, 2022.

Scenario 3: Inflation continues to increase over the period after April 2022 reaching 10 per by the end of the contract period. It stays at this level until the end of the collective agreement.

A. The average monthly increase in prices over the 36-month comparison period is:	7.2%
B. The average monthly wage increase over the 36-month comparison period is:	2.7%
C. The difference (A-B) is: This is the calculated value of the COLA as per the Ready formula.	4.6% points
D. Total wage increases including COLA over the 5-year term of the collective agreement are	19.4%
E. Total price increases (actual and projected) over the course of the 5-year term of the collective agreement (BC CPI, Mar-2020 to Mar-2025 as per SC Table: 18-10-004)	42.6%
Difference (D-E) A minus % represents a lag in wages behind inflation	-23.2% points

Making inflation forecasts that extend three years into the future is tricky and should be undertaken with caution, particularly when larger figures are involved. With that caveat in mind, if prices continue to increase after May, 2022 and move to the 10% range by the end of the collective agreement in 2025, workers’ wages will lag prices by a total of 23.2% points when the collective agreement ends, an outcome nothing short of catastrophic.

Conclusion: COLA Lite

In each of the three scenarios above, the COLA fails to protect workers’ real wages. Despite the fact that the COLA always delivers a supplementary wage increase to the regular annual hikes found in the collective agreement, workers’ real wage levels fall considerably in the face of inflation across all hypothetical situations.

The primary reason for this lies in the fact that Ready’s COLA formula draws on three years’ inflation experience and real wage loss, yet only credits the calculation of a wage increase for one year – the annualized average of the three. There is no way such an approach can capture and credit the full three years’ experience with wages and prices. The COLA also draws no connection between actual price and wage levels found at the point the COLA adjustment is to be made, a connection that would have to be established if real inflation protection is to be provided. Rather, it relies on a backward-focused averaging provision for a 36-month period falling in the middle of the collective agreement. This approach weighs down calculation of the COLA because the early months of the comparison period contain comparatively low inflation figures. In effect, the mid-contract calculation has a “drag effect” that prevents it from rising further in the direction of inflation levels found from the second year of the comparison on. In situations of higher inflation – such as Scenario 3 -- the drag effect increases, the wage lag becomes more acute, and the COLA progressively sheds its ability to shield wage levels from the impact of rising prices.

Overall then, Ready's COLA clearly fails to provide inflation protection. Bus workers covered by this provision will have at best partial protection for the duration of the agreement and will have to hope that some of the more dire inflationary circumstances contemplated in this report do not come to pass. This is because what inflation protection there is diminishes quickly if and when inflationary pressures mount.

A case of "Cola Lite" perhaps, and one lacking the needed caffeine kick.

Appendix A: Detailed calculation of COLA clause impact for three inflation scenarios

Scenario 1: Inflation stabilizes at current levels and remains there for the duration of 36-month comparison period and on to the end of the collective agreement.

Date	BC CPI *	Annual % rate	Note
Mar-20	132.3		Last month of old CA
Apr-21	135.2	3.0%	Actual
May-21	135.1	2.7%	Actual
Jun-21	135.8	2.4%	Actual
Jul-21	136.7	3.1%	Actual
Aug-21	137.0	3.5%	Actual
Sep-21	137.2	3.5%	Actual
Oct-21	137.9	3.8%	Actual
Nov-21	138.1	3.6%	Actual
Dec-21	138.0	3.9%	Actual
Jan-22	139.4	4.3%	Actual
Feb-22	140.4	4.7%	Actual
Mar-22	143.0	6.0%	Actual
Apr-22	144.2	6.7%	Actual
May-22	146.2	8.1%	Actual
Jun-22	144.8	8.1%	Projection
Jul-22	145.8	8.1%	Projection
Aug-22	146.1	8.1%	Projection
Sep-22	146.3	8.1%	Projection
Oct-22	147.1	8.1%	Projection
Nov-22	147.3	8.1%	Projection
Dec-22	147.2	8.1%	Projection
Jan-23	148.7	8.1%	Projection
Feb-23	149.7	8.1%	Projection
Mar-23	152.5	8.1%	Projection
Apr-23	153.8	8.1%	Projection
May-23	153.7	8.1%	Projection
Jun-23	154.5	8.1%	Projection
Jul-23	155.5	8.1%	Projection
Aug-23	155.8	8.1%	Projection
Sep-23	156.1	8.1%	Projection
Oct-23	156.9	8.1%	Projection
Nov-23	157.1	8.1%	Projection
Dec-23	157.0	8.1%	Projection
Jan-24	158.6	8.1%	Projection
Feb-24	159.7	8.1%	Projection
Mar-24	162.7	8.1%	Projection
36 months			
Average	of	6.6%	for 36-month period

Collective agreement regular wage increases		
Date	Wage Increase	Note
April 1, 2020	1.5%	
April 1, 2021	2.0%	Average for 36-month comparison period is 2.7%
April 1, 2022	3.0%	
April 1, 2023	3.0%	
April 1, 2024	4.0%	
Total compound increase (5 year)	14.2%	

COLA calculation		
A. Avg. CPI increase over 36 months	6.6%	Bottom Left
B. Avg. 36-month wage increase	2.7%	Above
C. COLA calculation	3.9% pts.	(A-B)
D. Total regular wage increases	14.2%	Above
E. Total increases + COLA **	18.7%	(C+D compounded)
F. Total CPI increase over full term of CA ***	36.5%	
Wage lag	-17.8% pts.	(E-F)

** Compounded total of regular increases + COLA increase.
 *** BC CPI increase between Mar-2020, the last month of the old CA, and Mar-2025, the last month of the new CA, assuming continuation of 8.1% annual rate through the fifth & final year.

* Statistics Canada Series 18-10-004 BC CPI Monthly

Scenario 2: Inflation tapers after April 2022 back to a 4.4 % level by the end of the 36-month comparison period, staying there for the balance of the collective agreement.

Date	BC CPI *	Annual % rate	Note
Mar-20	132.3		Last month of old CA
Apr-21	135.2	3.0%	Actual
May-21	135.1	2.7%	Actual
Jun-21	135.8	2.4%	Actual
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Oct-21	137.9	3.8%	Actual
Nov-21	138.1	3.6%	Actual
Dec-21	138.0	3.9%	Actual
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Jun-22	146.6	8.0%	Projection
Jul-22	147.4	7.8%	Projection
Aug-22	147.5	7.6%	Projection
Sep-22	147.4	7.5%	Projection
Oct-22	148.0	7.3%	Projection
Nov-22	148.0	7.1%	Projection
Dec-22	147.6	7.0%	Projection
Jan-23	148.9	6.8%	Projection
Feb-23	149.7	6.6%	Projection
Mar-23	152.2	6.5%	Projection
Apr-23	153.3	6.3%	Projection
May-23	155.0	6.1%	Projection
Jun-23	155.4	6.0%	Projection
Jul-23	155.9	5.8%	Projection
Aug-23	155.8	5.6%	Projection
Sep-23	155.5	5.5%	Projection
Oct-23	155.8	5.3%	Projection
Nov-23	155.5	5.1%	Projection
Dec-23	154.9	4.9%	Projection
Jan-24	156.0	4.8%	Projection
Feb-24	156.6	4.6%	Projection
Mar-24	159.0	4.4%	Projection
36 months			
Average	of	5.4%	for 36-month period

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April 1, 2022	3.0%	
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Total compound increase (5 year)	14.2%	

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A. Avg. CPI increase over 36 months	5.4%	Bottom Left
B. Avg. 36-month wage increase	2.7%	Above
C. COLA calculation	2.8% pts.	(A-B)
D. Total regular wage increases	14.2%	Above
E. Total increases + COLA **	17.4%	(C+D compounded)
F. Total CPI increase over full term of CA ***	25.5%	
Wage lag	-8.1% pts.	(E-F)

** Compounded total of regular increases + COLA increase.
 *** BC CPI increase between Mar-2020, the last month of the old CA, and Mar-2025, the last month of the new CA, assuming a falling inflation leveling off in the fifth and final year.

* Statistics Canada Series 18-10-004 BC CPI Monthly

Scenario 3: Inflation continues to increase over the period after April 2022, reaching 10 per by the end of the 36-month comparison period, and stays there for the balance of the collective agreement.

Date	BC CPI *	Annual % rate	Note
Mar-20	132.3		Last month of old CA
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Dec-22	150.1	8.7%	Projection
Jan-23	151.7	8.8%	Projection
Feb-23	152.9	8.9%	Projection
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Aug-23	162.5	9.4%	Projection
Sep-23	163.0	9.5%	Projection
Oct-23	164.1	9.6%	Projection
Nov-23	164.6	9.7%	Projection
Dec-23	164.8	9.8%	Projection
Jan-24	166.7	9.9%	Projection
Feb-24	168.1	10.0%	Projection
Mar-24	171.5	10.0%	Projection
36 months			
Average	of	7.2%	for 36-month period

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April 1, 2024	4.0%	
Total compound increase (5 year)	14.2%	

COLA calculation

A. Avg. CPI increase over 36 months	7.2%	Bottom Left
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D. Total regular wage increases	14.2%	Above
E. Total increases + COLA **	19.4%	(C+D compounded)
F. Total CPI increase over full term of CA ***	42.6%	
Wage lag	-23.2% pts.	(E-F)

** Compounded total of regular increases + COLA increase.
 *** BC CPI increase between Mar-2020, the last month of the old CA, and Mar-2025, the last month of the new CA, assuming a rising rate of inflation that peaks out at 10% and stays there in the fifth and final year.

* Statistics Canada Series 18-10-004 BC CPI Monthly