

## The Cost-of-Living Index and Wage Determination

Jean-Marie Martin

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[See table of contents](#)

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All correspondence must be addressed  
to the Literary Editor  
GÉRARD DION  
2, University Street, Quebec.

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### Contents

<i>The cost-of-living index and wage determination</i> Jean-Marie MARTIN	41
<i>Some aspects of the vocational training system in use in the printing industry of Montreal</i> Marcel FORGET	43
<i>Who must administer the oath to the witness</i> Marie-Louis BEAULIEU	45
<i>Statistics on labour relations</i>	47
<i>Union security in the Province of Quebec</i> Gérard DION	48
<i>Our Readers' comments</i>	50

### Contributors

- BANCROFT, (Mrs.) M.-T., Translator of the Bulletin.
- BEAULIEU, Marie-Louis, K.C., B.A., L.Ph., LL.D., Lawyer, Quebec Bar; Professor in the Faculty of Law and the Faculty of Social Sciences of Laval University.
- DION, Gérard, L.Th., L.Phil., M.Soc.Sc., Professor Assistant-Director of the Industrial Relations Department, Faculty of Social Sciences, Laval University.
- FORGET, Marcel, B.A., L.Ph., maître en relations industrielles (Montréal); Assistant-Secretary, Apprenticeship Commission of the Printing Trades of the City of Montreal.
- MARTIN, Jean-Marie, B.A., L.A.S. (Montreal), M.S.A. (Cornell), Professor, Director, Department of Economics, Faculty of Social Sciences of Laval University.

Authorized as second class mail  
Post-office Department,  
Ottawa, Canada.

## THE COST-OF-LIVING INDEX AND WAGE DETERMINATION

JEAN-MARIE MARTIN

*To what extent can the cost of living index be used in the negotiation of wage agreements ?*

The Cost-of-Living Index of the Federal Bureau of Statistics functions to express, with the aid of percentages, the changes in the retail prices of a certain number of commodities and services — constant as to quality and quantity — entering into the composition of the budget of a typical family for a determined period.

This description requires some further explanation. We must ask ourselves, first of all, what we understand by a « typical family », then what we mean by a « budget » and finally what is signified by a « determined period ». These are the three essential elements which enter into the composition of the Cost-of-Living Index.

The « typical family » with which the official Canadian Index is concerned, is not a real family. It is the average family resulting from a certain number of families actually living in the country during the years serving as the basic period for the setting up of the index.

The Cost-of-Living Index was calculated by making first of all an enquiry in some 45,000 to 50,000 homes in a dozen cities of Canada. From these 45,000 to 50,000 homes, 1,439 workingmen's families considered as typical<sup>1</sup> by the Federal Bureau of Statistics, were chosen to take a detailed count of their costs of maintenance, reckoning from October 1, 1937 up to September 3, 1938. These families lived in the following cities: Charlottetown, Halifax, St. John, Quebec, Montreal, Ottawa, Toronto, London, Winnipeg, Saskatoon, Edmonton and Vancouver. The revenue of the 1,439 selected families varied from \$600.00 to \$2,800.00 a year, the greater number of the families though, receiving between \$1,200.00 and \$1,600.00 in revenue per year. The mean revenue of all the families was established in the neighbourhood of \$1,500.00.

(1) The choice of families as being typical was made following an elaborate study of the 1931 Canadian Census with the purpose of establishing the principal attributes of the workingmen's families of the country and also of choosing the cities facilitating the best possible sampling.

In analysing the budgets furnished by each of these 1,439 families the conclusion was arrived at that the average annual expenditure established itself at \$1,413.90. This sum was therefore chosen as base and to it was given the figure of 100.

As explained in the November number of the Bulletin des relations industrielles, this amount of family outlay — \$1,413.90 — was divided into six important groups of expenses, namely: 1 — Food; 2 — Lodging; 3 — Heat and Lighting; 4 — Clothing; 5 — Furnishings; 6 — Sundries (under this heading of « Sundries » were included family expenses for health, personal items, moving, leisure and recreation, life insurance).

In giving to the total figure of \$1,413.90 the value of 100 it was found that this figure of 100 was divided for budget purposes in the following fashion according to the groupings above: 1 — Food 31.3%; 2 — Lodging 19.1%; 3 — Heat & Light 6.4%; 4 — Clothing 11.7%; 5 — Furnishings 8.9%; 6 — Sundries 22.6%.

This budget of \$1,413.90 per year, as we have seen, represented the average expenditures for the upkeep of 1,439 families. But it was necessary that this average should correspond also to an average family and it was discovered that the family which represented the average of the 1,439 families studied, consisted of 4.6 persons.

Finally, the period in the course of which this family of 4.6 persons spent for its annual maintenance an average of \$1,413.90 was established during the five year interval of the years 1935-36-37-38 and 39.

By the preceding we can see that what we understand by the family budget in the case of the official Cost-of-Living Index of Canada is the total of the annual maintenance expenses, during a five-year period of a workingman's family composed of 4.6 persons, living in one or other of the urban centres already mentioned, divided according to the six classes of expenditures.

From all these explanations it is clearly evident that the official Cost-of-Living Index in Canada applies only to a group of families having an annual revenue of around \$1,500.00 and that this annual revenue, since it is taken as representative, is supposed to reflect the most current revenue of Canadian families. Besides, this group of families, all working class, live in particular environments, i.e. in city surroundings, since the families chosen for observation were selected in twelve cities of the country from one ocean to the other. One cannot, nevertheless, conclude without falsifying the reality, that all Canadians live in one or other of these cities, that all Canadian families are workers' families and that they all have a revenue revolving around \$1,500.00.

One must not forget either that the family of 4.6 persons is found nowhere and that, in consequence, the representative family furnishing the budget on which is based the Cost-of-Living Index is a family which exists only in the abstract.

These remarks are not made to criticize the composition of the Cost-of-Living Index in Canada. They have for aim only to demonstrate that the Cost-of-Living Index is an arbitrary measure calculated, it is true, with as much exactness as the family milieu, which was made the object of the budget investigations, would permit, but which remains, nonetheless, a measure, i.e., *a term of comparison*. It is clear that the Cost-of-Living Index does not represent the expenditures of such a particular family that we could know. The Index is a *barometer*, a *floodometer*, as an excerpt from an article appearing in the February, 1948 number of the « Revue Statistique du Canada » recalls, « It is important above all to remind ourselves that the Index measures the changes occurring in the *cost* of living and not in the *forms* of life. It is an index of the movement of prices rather than the changes which are produced in the total expenses of a family ». « —The Index, in addition, measures only the average changes which are produced in the cities and towns across the country. By reason of the particular circumstances which surround the life of certain families it is not at all doubtful that the cost of living with these has increased in a manner much more marked than the Index. On the contrary, with other families, it has risen less rapidly. »

All this is to say that we cannot give to the Cost-of-Living Index all the meaning that personal interest or group interests are tempted to lend it. We must not lose sight of the fact that a particular measure, for example, the mètre, the gold standard etc., has neither utility nor value unless interpreted with regard to its own function. The mètre, to measure distances or surfaces, the gold standard, to measure the intrinsic value of money, the Cost-of-Living Index to measure the variations in the retail prices of certain specific services and commodities! Moreover, the word itself indicates that it is here a question of an index, i.e. of the explanation of a tendency and not of a proof.<sup>2</sup>

(2) See "Indice du coût de la vie" an article appearing in "La Revue Statistique du Canada", Feb., 1948. Also, "Cost-of-Living Index, Its Purpose and Construction", an article published in the "Labour Gazette", Nov., 1946, with illustrative figures revised using Nov., 1947 data. "Supplément, prix et indice des prix, janvier 1948". Index of the cost of living of the Federal Bureau of Statistics (Explanation combining all the revisions made since Jan. 2, 1948).