trial base, its root cause lies in the worldwide imperial ambitions of the small elite that rules the Soviet Union. *De facto* occupation of far places such as South Yemen, Ethiopia, and Mozambique is to be explained not by industrial economics but by politics and grand strategy.

Finally, I do not understand Hayek to be advocating atomistic markets, or holding that the industrial world is evolving necessarily in that direction. Rather, Hayek argues that central planning cannot yield economic efficiency, and that democratic socialism is a contradiction in terms because the minority that actually controls the means of production will also hold final power in all relevant matters. In both respects, Hayek is surely right.

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Wage Indexation in the United States: Cola or Uncola? By Wallace E. Hendricks and Lawrence M. Kahn. Cambridge, Mass.: Ballinger Publishing Company, 1985. xiv, 255 pp.

High inflation rates during the late 1970s, coupled with the growing prevalence in major collective bargaining agreements of multiyear contracts with cost-of-living wage adjustment clauses (COLAs), rekindled academic interest in the subject of COLAs. Over the last decade a number of economists have addressed issues relating to the nature and incidence of COLAs, their effect on the rate of wage inflation, and their effect on the level of strike activity. Indeed, a recent IRRA annual meeting contained a session devoted solely to COLAs.

Hendricks and Kahn's book is a major contribution to the literature on wage indexation. The authors, together with a team of graduate assistants, have painstakingly put together a data file from Bureau of Labor Statistics and Bureau of National Affairs sources that covers over 10,000 individual contract negotiations during the 1967–82 period. A major portion of their book is devoted to econometric analyses of these data; specifically, analyses of the determinants of COLA incidence, the determinants of COLA strength, the effect of COLAs on wage inflation, and the effect of COLAs on strike activity. Earlier versions of some of these analyses have appeared in previous publications by the authors, but there is enough new material here to hold the interest of even the well-read reader.

The book contains much more than these analyses, however. There is a detailed discussion of the history of wage indexation in the United States, which concentrates on explaining why COLAs have grown in importance only in the last 35 years. There are surveys of previous theoretical and empirical analyses of the macroeconomic effects of wage indexation; of micro-level theories of the demand for indexation and the determinants of its generosity; and of prior empirical research on the latter topics. Among the wealth of other material—too extensive to be fully listed here—is a discussion of how post-war incomes policies encouraged the spread of COLAs and how COLAs affected the success of these incomes policies. Throughout, Hendricks and Kahn are careful to point out the extent to which their results are consistent with previous authors' findings.

After reading the book and then looking back at my own previous research on the subject (*Journal of Labor Economics*, 1983), I have a sense that although we have learned a lot about COLAs, we still have a way to go. As Hendricks and Kahn note, we understand empirically why the presence of COLAs varies across contracts much better than why the generosity of COLAs varies across indexed contracts. Given the complex nature of multiyear contracts with both COLAs and deferred noncontingent wage increases, it is also difficult to specify exactly what level of inflation protection for workers is contained in contracts; the difficulty arises because of the nonlinearity of COLAs (some specify minimum increases, some prescribe maximum increases, and some specify both) and the problem of distinguishing between anticipated and unanticipated inflation. Finally, we do not have satisfactory explanations for why COLAs take the forms they typically do, such as a flat cents per point increase in the price index regardless of a worker's initial wage rate (rather than an equal percent increase for all workers) and the inclusion of maximum increases and other nonlinearities.

Nonetheless, this book is well worth reading, both for the authors' own research and for their integrative survey of others' research over the last decade, and I highly recommend it.

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