

2. Impact on Monetary Policy

Much of the opposition to the government's original proposal for a 9% GST was based on the potential inflationary reaction to the higher rate and to the tightening of monetary policy which was expected would take place to counteract these price pressures. Moving to the 7% rate has reduced these concerns significantly. Yet the Governor of the Bank of Canada's resistance to any higher wage response has not lessened: his position continues to be that the Bank will not finance an inflationary wage-price spiral, although it is quite willing to accommodate the direct price impact of the tax.

The message from the Governor is clear. Canadian businesses that use the implementation of the GST to boost prices and profits, and workers who use the tax to increase wages, risk triggering higher interest rates, which would in turn reduce aggregate demand, thereby lowering output and employment. We believe that it is important for business and labour to recognize the importance of sound pricing practices and responsible wage bargaining.