

- (21) To the extent that unions are successful in negotiating higher wage settlements in anticipation of the introduction of the GST, this will feed into firms' cost structures and affect the realized price change. However, it is important to distinguish between wage settlements that provide a fixed increase in anticipation of the GST and increases in the form of cost-of-living allowance (COLA) clauses that take effect with a lag. The first type of wage increase has an immediate impact on firms' cost structures. COLA clauses, on the other hand, affect wages with a lag since these calculate wage increases based on the previous period's inflation rate. In this way, the initial price effect of the GST could result in higher wages in subsequent periods that feed into further price increases.
- (22) In a forthcoming article in the Canadian Tax Journal, "Alternatives to the Goods and Services Tax", which was presented to the Committee, Professors Peter Dungan, Jack Mintz and Thomas Wilson of the University of Toronto estimate the impact of the GST on a number of economic variables. Building a wage response into their model, the authors assess that the GST would raise the Consumer Price Index by 1.7% in 1991, 2.2% in 1992, and 2.5% in 1993.
- (23) In the August 1989 Goods and Services Technical Paper, the Government acknowledged that increased wage demands could derail its own estimates of the GST's price impact. "The challenge that Canadians face is to realize these benefits as quickly and as smoothly as possible. This can be done if there is no inflationary response to the one time increase in the price level due to the introduction of the GST. Inflationary price and wage behaviour would, on the other hand, threaten sustained