It will be in the best interests of all Canadians if an inflationary response to what is largely a one–time price effect is avoided. An inflationary response would delay the realization of the benefits from the shift in sales tax and reduce employment and economic output. Moreover, the rise in domestic unit labour costs would reduce our competitiveness in both domestic and world markets, and lead to possible net export losses.

Most witnesses doubted that an explosive wage–price spiral would stem from the change in the sales tax regime. For example, according to Informetrica Ltd., its model of the economy found no evidence of this, nor was this phenomenon a feature of past economic history. A more likely effect, according to the consulting company's head, Mike McCracken, would be an increase in the number of labour contracts with COLA (Cost of Living Adjustment) clauses and in the number of one–year contracts. This trend is apparent during periods of uncertainty about inflationary tendencies. The benefit of COLA clauses is that they incorporate a portion of future CPI changes into wages, thereby removing the element of uncertainty. It would appear that organized labour is moving in this direction, as it positions itself to recover the expected decline in real wages. As was pointed out to us by the Canadian Labour Congress, some 40% of the Canadian workforce was already benefiting from some form of COLA at the beginning of 1989. Recent settlements suggest that some enhancement in COLA protection may be realized.

Both the Conference Board of Canada and the Business Council on National Issues provided interesting observations on why few are expecting a wage–price spiral. The collective bargaining process is entered into by two parties: business and labour. As the Business Council put it, since the extra revenue generated by a tax increase does not accrue to businesses, but rather to the government, private sector firms will not have the financial resources with which to accommodate labour's wage demands. Labour would therefore be constrained in its attempts to cover the real wages that it perceived itself to have lost.

Labour's efforts will be further muted during periods of weak economic activity like the present, when corporate profitability has been reduced. The appearance of lower corporate profits, soft economic markets and higher debt–equity ratios would also, as the Business Council suggested, lead to stiff resistance by employers to inflationary wage demands. Current labour market conditions should also, according to the Conference Board, help ease wage pressures.

This is not to suggest that labour will not attempt to achieve higher wage increases to compensate for lower purchasing power brought about by the implementation of the GST. It bears repeating that it is vitally important for the realization of the economic benefits of tax reform that the wage response be limited to the immediate price impact of the tax. It is, of course, hoped that productivity improvements resulting from tax reform will more than compensate for this additional wage cost.