

- (19) The Consumer and Corporate Affairs Committee also heard that in most cases the amount of FST embedded in the price of a product is virtually impossible to determine. Beyond that, the CIO will only be able to monitor a fraction of the huge number of products on the market. Finally, as already indicated, some firms simply will not be in a position to reduce their prices immediately due to inadequate rebates on existing inventories. Monitoring these firms, or attempting to persuade them to lower their prices, would be adding insult to injury.

C. Labour Demands

- (20) The failure of firms to quickly pass through savings from removing the current FST could cause the initial price increase from the GST to exceed the Government's 1.25% estimate. GST-driven wage increases reached in anticipation of the tax could also affect the size of the initial price hike. Whether this "one time" increase escalates into a wage-price inflationary spiral will depend on the results of subsequent wage negotiations and the extent of provision for cost of living allowances. As indicated, organized labour is skeptical of the Government's price forecasts and expects substantially larger price hikes due to the introduction of the GST. These expectations are crucial because they form the basis of labour's wage demands in upcoming negotiations with management. If labour is convinced that the GST will raise prices by, say 3.0%, it will seek wage increases to offset that amount. The labour groups that the Committee heard from appeared to be taking an aggressive stance toward upcoming wage negotiations, not only as a result of the GST, but also because they perceive that past wage increases have not kept pace with inflation.