

to reflect the elimination of this tax. Much of the debate about the price impact of the GST centers on whether firms will actually pass on to consumers the savings from the sales tax reduction or whether they will simply increase their price markups.

(6) The Government's assumption that 100% of the saving from eliminating the current Federal Sales Tax will be passed through to the consumer does not depend on the good graces of business, rather, it is believed that competition will force firms to pass on the cost savings. In competitive markets, firms that attempt to use such an opportunity to increase their profit margins are likely to be undercut in price by their competitors. Michael McCracken suggested to the Committee that there is a significant degree of competition in Canada which has been enhanced recently by the Free Trade Agreement and the appreciation of the Canadian dollar.

(7) However, Mr. McCracken and others also expressed concern that the regulated sectors of the economy including the telephone company, the electric power utilities, the transportation sector and the food sector regulated by marketing boards might not make the appropriate price adjustments immediately. As Mr. McCracken cautioned, "...the CRTC, the National Transportation Agency and the various marketing boards - need to be sensitized to this situation. They need to ensure that, on January 1, someone has done the necessary calculations and provided the information necessary to make the appropriate price adjustments. If they do not do it or if they do it six months after the fact, that could create a problem." (43:9)