

expands without allowing for a corresponding increase in  
the Bank's liquidity position. This would indicate that the economic  
downturn has been sharper than the Bank's price index or banking

(81.8a) \* indicated

(24) The Minister of Finance told the Committee that it is not  
an enforcement instrument to use the powers given to him under the  
Bank Act to require the Bank to "hold such reserves as may be  
necessary to meet the demands of the public which are higher than  
the notifications given to the Bank. It is felt that there is no reason  
why negotiations between the Bank and the public should not result in  
arrangements between the two parties. That is why the Bank has  
been instructed to establish a liaison committee on its  
own initiative to study the problem in detail in the  
interests of the Canadian economy. (81.8b)

Voluntary inflation may result in increases of wages  
notwithstanding the Minister's comments. There is  
at present no indication of any significant increase in  
any of the major trade unions or in their wage  
and driving agreements. These will probably affect workers have  
increased their wage rates. In fact, the Canadian Public  
Employees Association has agreed to a 5% wage  
increase to provide insulation from the GST. Other labour  
unions are also seeking protection from the GST either  
through fixed wage increases or by means of CCAA clauses.

A major concern is the reaction of monetary policy to any  
GST-generated price increases. The Governor of the Bank  
of Canada told the Committee that a one-time price  
increase could be accommodated by monetary policy; but that  
there is always some risk and against the risk that  
monetary policy would not be able to accommodate the  
resulting demand for goods and services. Should