

thing, as we have seen, the effective rate of the FST at the retail level exhibits great variation across categories of goods. The level of variation is largely a function of the number of stages in the distribution chain through which the product in question must pass. It is thus effective, and not nominal, tax rates that must be taken into account.

Most importantly, only about one-third of all Canadian goods and services are now subject to FST. Price increases are therefore likely for those consumer goods not currently subject to the FST. The extra charge may not be the full 7%, however, since even those products which are not now charged FST have some FST embedded in their costs. The prices of most services, which are currently not taxed, should rise. On the other hand, price reductions should occur for those goods, such as most durable goods, which currently have effective tax rates exceeding 7%.

Anticipated price changes have been gleaned from a research paper produced by Informetrica Ltd. ("The Goods and Services Tax At 7 Per Cent"), and the evidence provided to the Committee by various witnesses. A breakdown of expected price impacts on a number of significant personal expenditure categories is presented in Table 3. It bears mentioning that these figures are merely forecasts of price impacts of the GST; actual price effects may differ.

Generally speaking, price reductions should be most noticeable on major purchases such as automobiles, and durable goods such as furniture, carpets, floor coverings and household appliances. For example, the three large Canadian car manufacturers were consistent in their predictions to the Committee that the wholesale price of a \$20,000 car should, on average, decrease by approximately 4%, or \$800. Given the close relationship between new car prices and used car prices, it is also reasonable to assume, like General Motors, that the price of used vehicles will also decline.