an inflation process take hold, it would greatly damage our economic prospects. Therefore monetary policy must be prepared to offer strong and early resistance to any such development." (48:28)

(27) These comments by the Governor indicate his resolve to take early action to prevent a one time price effect of the GST from escalating into a wage-price spiral. It is uncertain whether the Governor will consider recent wage settlements, including cost of living protection in labour contracts as indicative of increased inflationary pressures. However, it is clear that if higher wage demands raise the underlying rate of inflation, as opposed to a one-time price increase, the Governor is prepared to neutralize these with monetary policy.

(28) Other price pressures, such as the recent escalation in world oil prices, also threaten the Bank of Canada's zero inflation target at this time. Unfortunately, with the country on the brink of a recession and the prime interest rate currently about 12.5%, any attempt to wring inflation out of the system through tighter monetary policy would only heighten the threat to the Canadian economy.