

CCC #1

INTERROGATORY

With regard to the statement, “In the long run, competition between firms is apt to pass cost savings of both kinds through to customer in the form of slower growth in the prices of the products that they sell,” (testimony page 5).

- a. please estimate the number of years that would approximate the “long run” that would be required to pass through the cost savings to consumers.
- b. Please estimate the percentage of the “long run” price reduction that would occur in the first year after the tax cut.
- c. Please estimate the percentage of the “long run” price reduction that would occur five years after the tax cut.
- d. Please provide any paper, reports or other documents that you have prepared or that are in your possession that would support your answers to parts a, b, and c of this question.

PEG RESPONSE

I cannot provide accurate estimates of these lags. However, my intuition as an economist suggests that the slowdown in inflation that is due to corporate tax cuts will be completed within five years of the cuts. This means that tax cuts that occur during Union’s rate plan may slow inflation during any succeeding plan.

These comments are based on my intuition, and are not based on any documents that I have prepared or read.

Witness: Mark Lowry

CCC #2

INTERROGATORY

1. With regard to the statement, “however, the tax reductions under discussion are pervasive and should slow the growth in GDPIPI materially,” (testimony page 6) please provide any reports, studies, articles, publications or other documents that you have written or that are in your possession that support the claim that the impact of the corporate tax reductions in Canada is to slow the growth in GDPIPI materially.

PEG RESPONSE

I have not to date discussed in writing my views on the impact of corporate tax reductions on inflation. I would note, however, that the federal Government explicitly acknowledges that changes in indirect taxes affect inflation. The core CPI that the Bank of Canada uses to control inflation is designed to exclude the inflationary effect of changes in indirect taxes. This presumes that there are material effects. For details see Tiff Macklem, “A New Measure of Core Inflation”, *Bank of Canada Review*, Autumn 2001. The effect of the GST tax reductions on CPI inflation was recently discussed in a Statistics Canada release. Please see my answer to Schools question #6 for further details.

Witness: Mark Lowry

CCC #3

INTERROGATORY

1. With regard to the statement, “however, the tax reductions under discussion are pervasive and should slow the growth in GDPIPI materially,” (testimony page 6) please provide any reports, studies, articles, publications or other documents that you have written or that are in your possession that support the claim that the impact of the corporate tax reductions in Canada is to slow the growth in GDPIPI materially.

PEG RESPONSE

Please see my answer to CCC #2.

Witness: Mark Lowry