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## Yukon 2000

### Government as an Economic Force

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**Draft Discussion Paper  
Prepared for the  
Yukon Economic Development Strategy  
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## INTRODUCTION

This paper is intended to stimulate discussion regarding government as a force in a modern economy. The approach has been to provide general background on the different roles that government can play, and an exploration of the possible rationales for such government involvement. This exploration is relatively practical, in that it implicitly draws upon observed experience, and attempts to draw conclusions from that experience about how and why government gets involved.

The whole subject of government involvement in the economy, and of government as a force in the economy, is a relatively controversial one. Great debates have raged in the past, and continue to rage today, about what government should or should not be doing, and about the effects of various forms of government involvement. Many of these debates are of an ideological nature, being premised upon broad and general principles which point to highly generalized conclusions, which either favour minimal or extensive government involvement.

This paper has generally avoided the ideological debate about government involvement. This is deliberate. While ideological reasoning can be helpful in defining revolutionary change, or in forcing overall movement in a general direction, it contributes little to formulating consensus, or to finding pragmatic solutions to pressing public policy problems. A general underlying assumption of this paper is that the Yukon today is confronting important practical questions about its future, and that the key participants in the economy are anxious to define pragmatic, practical roles for all the key actors, including government. This assumption is supported by the content of Yukon 2000; a Discussion Paper, as well as by the very fact that Yukon is engaged in a broadly participatory economic planning exercise.

In the final analysis, the appropriate role for government will depend upon a clear definition of goals and objectives, and a clear understanding of what is practical and acceptable. No paper can determine these for Yukon people. Fundamentally, this must be done by the people themselves, through their organizations, institutions and political process. However a paper such as this can assist in the process, and that is what it is intended to do.

The basic starting point in the paper is a recognition that markets -- local, national, and international -- are fundamental to the functioning and performance of the Yukon economy. It is recognized that markets create the basic pressures for change and adaptation. It is assumed that governments have a role only if they can supplement private sector or market activity in some overall positive way, or if they can compensate for market shortcomings. The approach adopted thus places the burden of proof on those supporting government involvement. For this the author offers no apologies; since it is believed that in this way such government involvement as there is will be a stronger positive force by virtue of it having to be justified.

This by no means suggests that government will inevitably be a negative economic force. Quite the contrary. Rather, it suggests that the contribution of government will be greater the more demanding we are in understanding and justifying the contribution that government can make. This can only be done by a rather careful and detailed examination of the potential contribution in specific circumstances, and in specific terms.

The focus of the analysis in this paper is the potential role of the Yukon Government. In many cases, the case for government involvement applies more appropriately to the national government than a provincial or territorial government. As a general rule, an attempt is made to note this distinction when appropriate.

The Yukon has many important and significant opportunities as Yukon people look to the future. Included among these are many natural strengths: abundant natural resources, large tracts of forests, generous amounts of fur, fish and wildlife, vast water supplies, scenic and enjoyable natural environments, and creative, industrious and educated population.

However, as a relatively remote area with a small population, Yukon faces some difficult problems in building upon its natural and inherent strengths. Distance alone is a serious constraint to realizing opportunities. So too is the relatively small market for Yukon produced products within the Yukon. Instability in world markets for resources has a powerful impact on the overall level of economic activity. The Federal Government, and its continuing commitment to the Yukon, is both an important source of support and uncertainty. And finally, the lack of capital financing for Yukon development has made the Yukon highly dependent upon the whims and vagaries of outside capital, and outside decision makers.

The question of how government, and the Yukon Government in particular, can contribute to the challenge of capitalizing on opportunities, and overcoming economic problems, is perhaps one of the most important issues that the Yukon faces. Many of the problems, by nature, are beyond the reach of individual Yukon citizens. Concerted, co-operative action in the interests of the Yukon as a whole will in many cases, be the only viable option. And in many cases, this means government action. This paper attempts to systematically look at considerations and options in this regard, as part of the continuing process of realizing the possibilities of government as a positive force in the economy.

In all cases, the case for government involvement in the Yukon is examined in practical terms within the context of economic goals of stability, maximizing value added, and the development of employment and business opportunities in all communities. When appropriate, the

goal of fairness or economic justice is also considered. It must be recognized that, as in all cases with multiple goals, conflicts may arise with respect to the achievement of these goals. The relevant weighting of the conflicting goals is something that, in these cases, can only be resolved through the political process.

## MARKETS AND THE ROLE OF MARKETS

Much of the discussion and debate about the role of governments has tended, historically, to focus on the role of markets in a modern economy. Markets provide much of the organizational structure of a modern economy. Market demand provides basic information on the wants and needs of consumers, and on what consumers are willing to pay in order to fulfill those wants and needs. As such, they provide firms with critical information about what can be done on a sustaining, profitable basis. Business opportunities are planned and implemented on this basis, in anticipation of such plans being consistent with the plans of consumers.

Markets, when they work well, have many important strengths. They make possible a relatively decentralized economy, with individual firms and households each planning and implementing decisions in response to opportunities provided by the other. In many circumstances, they encourage competition among producers, which in turn helps to ensure that society gets what it wants at the lowest possible cost. And market activity, involving the voluntary exchange of goods and services, generally encourages a high degree of independence in the sense that people are pretty much left to their own devices.

An economy that is largely driven by market forces can thus be expected to be characterized by decentralized decision making, continuing improvements in productivity, a relatively good matching of production and consumption, and a relatively high degree of independence of consumers and firms. And experience generally confirms this finding. The economies of Western Europe and North America, in which markets are the basic driving forces within the economy, have in fact reflected these findings over the past 100 years or more.

However it is also true, and recognized in all of these countries, that markets cannot do it all, nor can they do what they do perfectly in all cases. For these reasons, we find many cases of selected goods and services being produced, and distributed to consumers, with a considerable amount of government involvement. Such involvement may range from direct government provision to government financing of production to various forms of regulation and control. And market economies do not always tend to be self-regulatory, in the sense of ensuring full employment and prosperity without inflation. For this

reason, we find many cases of governments attempting to improve the overall performance of the economy in these respects.

The exact nature of the case for government involvement varies, depending upon the circumstances. In general, however, it is possible to categorize the reasons for, or rationale for government involvement into the following:

- (1) increased stability in prices, output and employment for particular commodities
- (2) resolving difficulties when a tendency to natural monopoly arises, and in particular public when utilities are involved
- (3) providing public goods and public facilities where prices cannot practicably be charged
- (4) dealing with pricing inefficiencies
- (5) dealing with concentrations of economic power
- (6) achieving economic justice
- (7) achieving fiscal equity
- (8) achieving overall stability and prosperity
- (9) pursuing general growth and development
- (10) facilitating structural change.

In what follows, each of these topics is given general attention, and then discussed in terms of specific relevance to the Yukon economy.

## THE PURSUIT OF INCREASED STABILITY

One of the difficulties that may arise with markets is that there can be a high degree of instability in prices, production and consumption. This, of course, does not arise in all cases, or even a majority of cases. Indeed, for most goods and services produced and marketed, stability is the general rule. However for some commodities, such as agricultural and natural resource commodities, instability is more often the rule than the exception.

Instability can generally be characterized as a cyclical phenomena, in that unstable markets usually experience price fluctuations around both long term and short term trends. These price fluctuations create uncertainty, and thus act as a disincentive with respect to investment. They can also cause instability in employment, with relatively high costs in terms of the occupational and locational adjustment and unemployment that arises during downturns, and the labour and other shortages that arise during upswings in the cyclical pattern.

Addressing the problems associated with instability constitutes one important rationale for certain kinds of government involvement in the economy. Agricultural stabilization programs, unemployment insurance programs, commodity storage programs, supply management programs, and output subsidies during periods of low prices are all measures that have been adopted in attempts to offset the effects of market instability.

Government measures to cushion impacts of instability are not without their difficulties however. Virtually all such measures are premised on the belief that the troughs in commodity cycles are temporary, and that demand and prices will, over a slightly longer period, fluctuate around some higher mean. One of the most important difficulties is predicting what the longer term really holds. Reductions in demand and declines in prices also occur in industries which are in long term decline. Error in predicting the long term direction of demand and prices can have serious consequences. Government intervention in the name of stability, if premised on optimistic error, can have the effect of maintaining production and capital supplies at levels which are not sustainable over the long term.

If this is the case, there will arise two equally serious consequences. One is that labour and capital commitments will be higher than can be justified if production is to be organized on an efficient basis. This is particularly serious if there are other alternative forms of employment of labour and capital which will result in higher valued production through the use of such labour and capital. The second is that government support for such industries may become a necessary element in sustaining the industry over the longer term. Aside from the contribution this makes to inefficiency, this can result in government expenditures being locked in, in spite of the fact that government could direct such expenditure efforts to higher valued, preferred activities. Withdrawal of support will force the adjustment that would otherwise have been induced by the market, often causing considerable human and political damage; while a failure to withdraw support can generate increasing fiscal stress for the government(s) involved.

It is clear market instability provides an important rationale for government involvement, under certain circumstances. Measures which

reduce cyclical variations in capital and labour use, and in returns to producers, can make an important contribution to economic well being. However, where such measures involve mistaken predictions about the long term direction of demand and prices, the consequences can be adverse both for those within the affected industry, and for government itself. It is thus important that government have a clear understanding of its reasons for supporting an unstable industry, as well as reliable information about the implications of action taken. In particular, actions to absorb costs or supplement returns should only be taken on an actuarially sound basis, where it is relatively clear that future "booms" will generate surplusses sufficient to offset any temporary price supports or cost offsets maintained during cyclical downturns.

The possibility of pursuing policies and measures which will increase stability in particular sectors is obviously something that governments can and perhaps should consider for the Yukon, particularly with respect to the mining sector. Measures which reduce costs and increase returns may help to preserve investment and employment that is clearly sustainable over the long term. However, in pursuing such policies a number of questions need to be posed, including:

- (1) How certain is it that prices will recover over the longer term?
- (2) How should the costs of such measures be shared between industry and governments?
- (3) Can and should industry contribute to the costs from future profits?
- (4) Does government have the capacity to sustain the support until prices recover?
- (5) Who gains most from the increased stability (Yukon residents or non-Yukon residents), what does this say about what level of government should provide the support and to what extent should support be provided?

## NATURAL MONOPOLIES AND NATURAL UTILITIES

The phenomenon of natural monopolies has played a significant role in both academic literature and government deliberations regarding government involvement in the economy. Indeed, many who oppose government intervention generally concede that, where a tendency to natural monopolies exists, a prima facie case also exists for government to play a role.

A tendency towards natural monopoly exists when both market forces and efficiency suggest that a single supplier should meet customer needs in a particular market. This may arise because of the existence of economies of scale in production, such that the most efficient size of a production facility is very large relative to the size of a market. Alternately, it may arise when the existence of more than one supplier would lead to duplication of distribution facilities, when a single set of such facilities would adequately serve customer needs. The presence of more than one distributor will thus be both inconvenient for customers and wasteful.

The economic imperatives in these situations are all in the direction of monopoly. Competition will almost inevitably be displaced by monopoly, as some firm gains the advantage in market share, and exploits the lower per unit costs associated with larger scale to further increase market share until complete dominance is achieved. And even if competition does not quickly yield this result, consumers generally will quickly come to understand that a single supplier will be able to reduce costs and extend the range and quality of service on a cost recovery basis; leading to an inevitable demand for government action to realize this result.

The result, while efficient as a basis of organizing production and distribution, has all of the standard problems associated with a concentration of economic power. A monopoly is no less powerful and able to act contrary to the best interests of consumers simply because efficiency and non-duplication of facilities provided the original impetus for its creation. In particular, assurances that prices will be as low as possible, and service will be extended to all as long as costs can be recovered, will not necessarily be forthcoming where the "natural" monopolist is able to make decisions on the basis of its own, private interest, rather than the larger, public interest.

"Natural" monopolies, and the tendency toward concentration, can be observed in many different economic sectors. Some obvious cases are electricity generation, water and sewage treatment, transportation equipment manufacture, airport facilities, rail lines, and water, sewage, gas, electricity, telephone and urban transit systems. Others can be identified with similar characteristics, though it may be that a small number of producers, rather than a single producer, can meet the needs of a particular market with the lowest possible production costs.

A number of natural monopolies have come to be known as utilities, although clearly not all are so classed. In general, the distinguishing feature of utilities is that they are not only natural monopolies, but also that they provide goods and/or services which have become recognized by the public generally as necessary or essential to the maintenance of a minimum standard of living. These include, at a

minimum, electricity generation and distribution, urban water and sewer systems, telephone systems, and in at least some circumstances, transportation systems.

In cases where natural monopolies are treated as utilities, there is a strong rationale for, and public preference for, government involvement in service and pricing decisions, decisions which in turn extend to matters such as investment, financing, and business organization. Such government involvement can take two forms: regulation or direct government ownership. Whichever is adopted, it is widely accepted that one or the other is essential, since decisions based on the economic self-interest of the monopolist will tend to yield prices higher than needed to recover costs, and levels of service lower than justified on the basis of economic and public policy criteria.

There has been much vigorous debate in the past, most of which continues today, about the relative merits of public ownership versus regulation in dealing with a natural monopoly. Those favouring regulation tend to argue that public enterprise generally has too much "public" input into decision making, much of which has more to do with political interests of governing parties than with public wants and needs. The result, it is argued, is too little attention to efficiency, profitability, and the restriction of "unjustified" activity. This tendency is increased by the temptation of government-owned enterprises to draw upon public financing with relative ease, whenever financial difficulties develop. Thus, it is argued, regulation is preferable because it provides a means of restricting government involvement in decisions to the essentials such as rates of profit, prices, and quality and reach of service; while maintaining the discipline of overall financial viability, needed for the continued survival of a privately owned and financed firm.

Those favouring government ownership in cases of natural monopoly tend to focus on two related factors. First, it is argued, the nature of decision making in cases of natural monopoly is highly complex, involving a large number of important variables and a substantial number of differing public objectives. Regulation, it is argued, cannot simply and effectively achieve its goals in such an environment. Regulators cannot foresee all of the circumstances that may arise, and all of the factors that should go into a good decision. The most that regulators can do is to establish a limited number of constraints on a privately owned firm, which in many cases fails to encompass the variety of objectives and trade-offs between them, which are important to achieving maximum efficiency and effectiveness. Public ownership, with public direction and accountability will more likely result in a full consideration of all public interest objectives, with less temptation to give private profit a priority position whenever regulatory gaps and lapses appear.

Second, those favouring public ownership in the case of natural monopolies argue that regulation itself is inevitably a faulty process in terms of accurately representing the public interest. According to this view, regulation creates an unequal contest between privately owned regulated firms and consumers. Consumers individually can only realize relatively small gains through regulation, and can only effectively argue for those gains before regulators if they are prepared to absorb considerable expense. This is true even if consumers argue their case collectively, since they have a disadvantage in terms of information, must incur considerable expense simply to organize to argue their case, and will have difficulty in getting all potential beneficiaries to join in financing the collective effort. The monopoly firm, on the other hand, can realize large gains from getting its way, faces no organizational costs since it is the sole producer, and generally has superior informational, technical, and financial resources to argue its case. The inevitable result, it is argued, is that the regulated firm has a great advantage, with the not surprising result that the regulatory process is inevitably captured by the monopoly firm, with decisions being generally favourably weighted toward the interests of the monopoly firm. A reliance on public ownership, with public service rather than private profit as the criterion for decision making, effectively eliminates, according to this argument, the problems inherent in regulation.

The Yukon Government currently faces some important questions regarding the future ownership and management of its public utilities. The transfer of ownership of the electrical utility is one such example. With the completion of the transfer of ownership of this utility, there will be a number of important questions that will have to be answered regarding the contribution it can make to future development. This will require, among other things, numerous decisions regarding levels of service, the charges for such service, and investment in generation and distribution facilities.

## **PUBLIC GOODS AND PUBLIC FACILITIES**

A careful examination of any relatively typical modern market economy leads to the conclusion that there are a relatively substantial number of goods and services which are provided by government, and for which there is generally no charge to consumers or users in return for their use or consumption. Further, it can be observed that regardless of what country or region of a country one observes, there are certain of these goods which are common to every society. These include such things as defense services, roadways, port facilities, parks, streets, recreational facilities, weather forecasting and the like.

Economists, in examining these situations, have concluded that there are two common characteristics of the goods and services which recur in each case. One is that it is often impossible or very expensive to charge people for the goods or services involved, even though people clearly want them. The result is that it is impossible, or not financially feasible, to collect a fee or charge from people in return for their consuming or using the thing. Under these circumstances, it is not possible for private firms to provide the goods or services on the basis of its private sale, since a price cannot be commanded because of the technical make-up of the good or service. Private firms must cover costs and make a profit to survive, and this they cannot do in these cases. Thus if these goods and services are to be provided in the society, they must be provided by the public sector, through public financing. The public sector (i.e. government) may, and often does, contract with private sector firms to actually produce the good or service; although whether it does so or not will often depend upon whether it is cost effective to do so, whether quality specifications can be established and monitored, and whether production requirements can be effectively established and policed through contracts.

However, there is another feature of publicly provided goods and services which is often present, and which could be a deciding factor in not charging a price or a fee, even if one could be charged. This is where it is possible to add users to a public facility or service at no additional cost, once the facility or service is in place. In these cases, it is argued that even if a price or fee can be charged, it makes no sense to do so on public policy grounds, since any charge will discourage certain people from making use of the service. Since permitting additional people to use the good or service does not in any way reduce benefits to others, or use up any additional production inputs; there is a positive gain for society in letting them do so, since there are real benefits to some additional people at no cost to society. Thus, there is a strong economic argument against charging any price at all. But again, if no price is to be charged, the good or service must be financed with public funds.

The general conclusion is that there are certain kinds of goods and services for which a price cannot be charged, or for which a price should not be charged. These include consumer goods and services of the kinds already mentioned. They also include certain kinds of goods and services used in production, including lighthouse signals, weather forecasts, research, provision of technical production information (eg. manpower training, agricultural extension services), and transportation infrastructure, including airports, railroad beds, highways. In all of these cases, it is either difficult to charge a positive price, or permitting additional users creates little or no extra cost to society, or both. Since charging a price is either difficult or not justified, a strong case can be made for government producing and financing the production of such goods.

If government does not do so, there can be two results. In some cases, as with defense, it is unlikely that the service will or can be provided at all. In other cases, there may be some private arrangements possible (private roads did exist in some countries in much earlier times, for example), but the level of or amount of service is likely to be woefully inadequate; and overall productivity within the economy is likely to decrease markedly. In these cases, government becomes a powerful force for ensuring that consumer wants are indeed met in proportion to the value people put on things, and that the economy is as productive as possible.

Public goods and public facilities can provide an important basis for new investment and employment within an economy. Their production in and of itself can often be contracted to private sector firms, as in the case with many kinds of public facilities. In addition, many public facilities require on-going employment in order to be operated.

Further many kinds of public goods can be an important element in assuring overall opportunities are realized in a particular sector. A good example in the Yukon is the whole tourism and recreation sector. Transportation infrastructure, parks, improvements in wilderness areas, improved access to and facilities for recreation areas, etc., often have the characteristics of public goods. People both inside and outside the Yukon place a high value on these things, and will make use of them and enjoy them if they are provided. In so doing, opportunities will develop and expand for many of the private sector activities which can and will benefit from people so doing, such as hotels, restaurants, bussing companies, airlines, outfitters, etc.

The real problem, however, is one of how to finance such developments. By their very nature, it is not practical to try to charge a price for their use. Financing them from taxes paid by Yukon residents is to some degree unfair, since many of the direct beneficiaries are from outside the Yukon. In addition, such taxes could become extremely burdensome if borne only by Yukon residents.

There are really only three alternatives. One is to restrict the development of such facilities, on the basis that they cannot be fairly and practicably financed. A second is to develop special taxes which approximately fall upon the primary users of the facilities. These would include special sales taxes which tend to be borne by tourists and users of public facilities related to tourism and recreation. And a third is to seek out federal government support for the development and operation of such facilities, on the basis that the direct beneficiaries tend, to a greater degree at least, to be Canadian taxpayers as opposed to Yukon taxpayers. This latter approach is of course the primary rationale for federal government financing of the tourism subsidiary agreement under the Canada/Yukon Economic Development Agreement; as well as for other similar cost-sharing arrangements. In general, it

can be seen to be to the advantage of the Yukon to have its government vigorously press for similar agreements, in order to ensure the fullest possible development of the kinds of services and facilities referred to.

## BREAKDOWN IN MARKET INCENTIVES

The power of the market as a basis for organizing economic activity is that it provides a means through which members of society may relate to one another in a social context, such that whenever a market exchange takes place, both parties to the exchange are better off, and no other affected parties are worse off. Further, when markets work well, labour, capital and other inputs all get directed to their most valued uses, based in the final analysis on what valuations consumers place on things.

When goods and services have the properties of public goods, this result will not be realized. However, this result will also not be realized when economic activity yields by-products which are not taken into account, in economic terms, by those undertaking the activity. This happens when there are impacts on others which cannot be, or are not, priced.

Such impacts may be either beneficial or harmful, to those affected. If they are beneficial, the results are twofold. First, those who enjoy the benefit are able to do so without compensating those who undertake the activity which produces the by-product, even though its value to those benefitting may be greater than the cost of producing it. If the by-product were priced, on the other hand, those producing it would get a return, and there would be an incentive to produce it in keeping with its value to others. The overall effect is that market incentives do not work effectively, and certain things are not necessarily produced in amounts consistent with what would be the case if market rules could be applied, and were in fact applied.

If the impacts are harmful, there are somewhat parallel dual effects, only inverted. First, those harmed are in effect giving up something of value, but they are not in a position to extract compensation, since they cannot charge for the damage imposed. This is inconsistent with market principles, since effective and efficient markets ensure that anyone sacrificing something of value is compensated for the sacrifice. Second, those imposing the harm, as a by-product of their primary activity, will not take the harmful impacts into account as a cost. If they did, there would be an incentive to reduce the amount of damage done, so as to avoid as much as possible that element of cost. Once again, the results are different from what they would be if markets ensured that people affected could charge for any damage imposed upon them through activities of others.

The first set of cases, where the by-products are beneficial to others, are referred to by economists as external economies. There are numerous examples, including various communicable disease prevention measures, where a person's taking a vaccination protects the individual while also reducing the probabilities of others being infected; vocational training which improves the earning power of an individual while also increasing the profits of an employer; business property improvements which draw more customers to the business, but which simultaneously increase patronage for other businesses in the business district, etc.

The second set of cases, where the by-products are harmful to others, are known by economists as external diseconomies. The most prominent form of diseconomies are the various forms of pollution that may be the by-products of industrial production, resources extraction, or other forms of economic activity. One example is aircraft noise generated in residential areas as a result of the over-flight of planes on approaches and take-offs. The annoyance caused to householders is something which would, if confined to private property, if permitted at all, be charged for by the owner of the property (as would be the case if one wished to dump refuse on privately owned property). However, since property owners have no ability to exclude the plane operators from "dumping" the noise on their property, no such charge can be exacted. If a charge could be exacted, it would act as an incentive for plane operators either to reduce noise, or if the charge was high enough, eliminate it altogether. Since it cannot, no such incentive exists.

This kind of phenomenon essentially involves a breakdown in the normal working of market incentives. A market cannot be made to work for these kinds of by-products, and thus some costs and/or benefits are not taken into account by firms and other private decision makers.

Some sort of government involvement can be seen as a very positive force in these situations, if undertaken with care and with good information about the affected parties' evaluations of the external economies and/or diseconomies involved. Essentially, government involvement will be directed at creating incentives of a sort that would exist if the by-products could be made marketable commodities. The most common form of government involvement in these cases is regulation to reduce or eliminate harmful by-products; taxes or charges placed on the generation of harmful by-products, approximating the prices affected parties would charge if it were technically possible to do so; and subsidies which reward the elimination of harmful by-products and the production of beneficial by-products. All of these kinds of measures are commonly used in one set of circumstances or another, and all can be seen as attempts to develop workable market analogs which are aimed at a completion of market structures where gaps exist for technical or institutional reasons.

Governments in the Yukon have been, and will continue to be confronted with numerous questions of the sort discussed here. Particularly important are various problems associated with pollution, environmental damage, and the disposal of wastes. Examples are pollution of waterways, air pollution, the destruction of natural environments, and the like.

It is very often difficult for the offending parties to see government action on these things as a positive thing, but yet in economic terms, it clearly is if the pollution detracts from productivity of other industries, or from the enjoyment that people would normally get from the affected environment. Each of these are very real costs to the firms or people affected. If markets worked well, the affected parties would have to be compensated for their sacrifices. This is clearly the normal situation when the actions of one party impose costs on another.

However, because the costs involved do not get treated as a real cost by the offending parties, there is no incentive for the offending parties to take preventive action. Government action can be seen as an attempt to represent the very real economic interests of the affected parties. Thus, government action to reduce river or lake pollution which affects the fish population is clearly action taken to represent the real economic interests of fishermen. Such action will increase the productivity of fishing, and be a very real force in improving the economic vitality of that sector.

Likewise government action to reduce air pollution is an action that "produces" something of very real value to many people. A well performing economy is one that ensures that those things which are of value do actually get produced. Thus, rather than being a hindrance to economic performance, government regulation in these areas makes a very real contribution to improved economic performance.

## MARKETS AND CONCENTRATION OF POWER

One of the not inconsiderable virtues of an economy organized around markets is that consumers are placed in a position of driving the production system through their willingness to pay only so much for particular amounts of things produced. So long as production of any particular thing is dispersed among a large number of producers, competition will insure the lowest prices (or willingness to pay) possible, consistent with a recovery of costs, and that consumption is at the largest possible level within this constraint.

However, should production become concentrated into the hands of a single or a small number of producers, the picture changes considerably. Two results, in particular, have been widely discussed and analyzed. The first is that prices are higher than would be the case if competition prevailed, with surplus profits accruing to the owners of capital in the monopolized industries. The second is that in an economy with a high degree of concentration in a large number of economic sectors, the firms are placed in a powerful position to influence economic outcomes in a wide variety of respects. Consumers, the driving forces in a competitive market economy, become much less influential in such an economy. The small number of large firms produce a limited number of products, and give consumers what largely amounts to a take it or leave it choice. Further, through advertising and other communication techniques, the producing firms are able to mold and shape consumer wants in keeping with the plans of the corporation, rather than vice versa. And, larger firms with substantial control over investment and employment, are able to influence and shape government decisions in keeping with their wants and plans, to a large extent.

To some considerable degree, this power over investment and employment has become a greater concern today than concern about the power of large firms to extract monopoly profits from consumers. The multi-national base of operations of many firms, combined with a high degree of international mobility of capital, has meant that much investment has little regional or national loyalty. The idea that entrepreneurial initiatives will share community, regional or national goals of a population has little meaning when applied to the large multi-national corporations. Head offices are based far from the producing operations, and important decisions depend as much on what is going on elsewhere in the world as on local conditions or opportunities.

Notwithstanding the many problems associated with large scale corporations with substantial economic and political power, the concentration of production of particular goods into the hands of a limited number of producers has without doubt contributed significantly to the immense productivity and standard of living gains of the last century. Virtually no student of the industrial economy will deny this point. Whether this will continue to be the case in the growing service and high technology industries, which will constitute a large part of the economy in the future is more questionable. However, it is clear that, in the major processing and manufacturing industries, a return to small scale operations would only be possible at considerable cost in terms of productivity.

It is clear that any corrective actions contemplated as a result of the concentration of economic power in today's economy must come largely from governments. Any actions considered must be pragmatic, and taken with a full recognition that a reversal of many elements of

the concentration of economic power would be neither feasible nor wise. However, there are measures which to some degree at least, can ameliorate some of the less desirable features of such concentrations. These may include laws against practices which restrict competition to less than what would otherwise apply, prohibitions against acquisitions or combinations which have no economic rationale, measures which assure a place for community, regionally or nationally owned corporations in exploiting opportunities which would otherwise go by default to multi-national corporations, financing and other arrangements which equalize the playing field between smaller and medium sized businesses and the large corporations, etc. Of course, each of these kinds of measures must be carefully examined in terms of actual impacts in actual situations, since unintended effects can be an important consideration when contemplating such measures. In addition, some will be inappropriate for some levels of government while appropriate for other levels of government, making the wisdom of their actual application dependent upon whether local, provincial, or national governments will be responsible.

Generally speaking, it is accepted that the potential contribution that a level of government below the national government can make in this area is small, because large corporations are national and international in scope. In addition, there are severe constitutional and legal restrictions on the power of a government such as the Yukon Government to act. However, financing arrangements and government purchasing policies which favour smaller Yukon owned businesses are examples of policies which can make a contribution in this regard.

## ECONOMIC JUSTICE

One of the most powerful and commonly voiced criticisms of market economies is that they tend, if left untended by government, to result in unfair economic results. Disparities in wealth, income, and overall well being are extremely large in most modern market economies, and tend to continue to be so even in the face of numerous activities of governments designed to ameliorate the situation.

There are many different ways of attempting to define the degree of economic disparity in objective terms. The two most common are:

- (i) to observe the distribution of income or wealth among different groupings of the population.

This is done by rank ordering all individuals from the lowest to the highest in terms of income, along with the amount of income earned by each. The individuals are then grouped into groups of equal numbers (each group containing, say, 20% of the

population, in which case they are called quintile groups), with the first group containing the 20% with the lowest income, the next group with the next lowest incomes, and so on. The result will be a statement of the distribution of income by income groups, showing what percent of total income is received by each of the income groups.

The following shows the results for Canada in 1978, where individuals are treated as single individuals or families living under one roof, and income is all income including government transfers.

**TABLE A**  
**Distribution of Income by Income Groups**  
**1978**

Income Group	% of Total Income
Lowest 20%	4.1
21% - 40%	10.4
41% - 60%	17.6
61% - 80%	25.2
Highest 20%	42.7

- (ii) to establish a minimum income level required to maintain a minimum standard of living for families of a given size, and to establish the number of families falling below this minimum. This minimum is sometimes referred to as the poverty line.

Recent studies show that over 20% of all families in Canada fall below the poverty line. This too is a relatively startling result, and supports the view that economic outcomes for families today are less than desirable.

The real difficulties arise in determining whether governments should do something about this situation, and if so, what should be done. Some people argue that a market economy rewards people in keeping with individual effort, and that the results are in fact fair. Any attempt to address inequalities will necessarily mean taking something away from some people to improve the conditions of others, which according to this school of thought is unfair to those whose effort and initiatives have placed them in a superior position.

Others will argue that poverty and inequalities are the consequence of a complex set of historical and contemporary

circumstances, of which individual effort is only a small part. It is unfair to make people prisoners of these circumstances; and no society which values fairness and justice will be prepared to leave at least the worst of the inequalities unattended. And, it is argued, it is clear that all societies do, to a greater or lesser degree, value economic fairness and economic justice. This is exhibited in the various voluntary organizations which direct their efforts to this end. And it is also confirmed by the fact that all political organizations, and all governments, find themselves forced to some degree to respond to societal demands to address poverty, and extremes in income distribution.

Generally speaking, it is also agreed that if poverty is to be addressed, governments must be a major force. Governments have almost exclusive access to the various instruments that might be utilized.

The approaches that governments can use are varied, and can have quite different effects and implications. These approaches can be broadly divided into two major categories:

1. measures to ensure greater equality of opportunity amongst people, and
2. measures to ensure directly, greater equality of results amongst people.

The first of these approaches include many of the education and training functions directed at young people, financial assistance provided to those prepared to train or retrain, many labour market policies which help people make adjustments to new employment opportunities, affirmative action programs, and to some degree housing assistance, universally accessible medical care and other measures undertaken to ensure as much as possible that people are not physically or socially disadvantaged when it comes to undertaking productive work.

The second of these approaches include social assistance, guaranteed annual incomes, unemployment assistance, old age assistance and other money transfers from governments to individuals and families which directly increase disposable income from what it would otherwise be. They also often include the partial or total financing of particular goods and services so as to increase the amount consumed above the amount which would otherwise be affordable. Included in this latter group are free education, free or subsidized medical care, subsidized housing for low income people, subsidized public transportation, subsidized energy, subsidized child care, etc.

One of the on-going debates about the merits of measures designed to achieve greater economic equality directly (what might be broadly called union re-distribution measures) centres on whether such measures detract from the efficient working of the economy. Where direct income transfers are involved, there is often a concern about whether such measures reduce work incentives within the economy. While this remains one of the great unsettled questions of economic policy, it is generally agreed that some approaches are less likely to reduce work incentives than others (eg. negative income tax approach as opposed to the welfare approach). Where particular goods and services are partially or wholly government financed, the most general concern becomes one of over consumption, and of how to reduce wasteful or unnecessary consumption that may result. This concern is reflected in the often heard suggestion that ways must be found to ration the consumption of medical services, or to encourage conservation of energy where energy subsidies are used to ameliorate the hardship for low income people when energy prices are high.

Clearly the Yukon Government can and does undertake many activities designed to correct for economic inequalities. Many such measures are partially financed by the Federal Government. Others are totally financed by the Federal Government, because of the general interest in poverty and inequality as a question of national interest.

Some areas where the Yukon Government has the capacity to make a positive contribution beyond that already made include:

- (1) equality of opportunity in employment, and the use of affirmative action and employment equity measures to achieve greater equality of opportunity for women, native people, the disabled, and poorer people generally.
- (2) measures to generate greater equality of participation in education and training
- (3) improved access to housing for poor people
- (4) improved access to investment capital for those with limited resources.

Most of these, and other measures, will be considered in other papers prepared for this conference. It should be noted that in at least some of the above cases, measures indicated could make a positive contribution to the generation of increased employment and business opportunities. However, as is often the case, the problem of financing such measures is less easily resolved. While a clear case for government financing can be made, such financing may not be possible within the limited financial resources of the Yukon Government. Under these circumstances, at least partial federal government financing is clearly an option. But without it, the potential for such measures will be clearly limited.

## FISCAL EQUITY

In a country like Canada, with its highly diverse geographic and economic character, concern is often expressed about regional disparities, and the need to ensure that people in different regions are treated fairly and equally. This is obviously a complex matter, and one that cannot be reduced to simple terms. For instance, if absolute equality between all individuals in all respects is not viewed as reasonable or practical, it follows that absolute equality between individuals across regions is not reasonable or practical.

It is generally accepted that absolute wage and salary equality is not a reasonable goal, since differentials here may play at least some role in encouraging labour force adjustments. And it is generally accepted that prices of goods and services cannot everywhere be equal because of differentials in transportation costs.

However, a general consensus has been reached in Canada that all people should have equal access to basic and essential public services, of an equal quality, without carrying substantially different tax burdens (i.e. fiscal equity). The achievement of this goal is complicated by the fact that different services are provided by different levels of government, and thus there is no single government with the capacity to ensure this result.

The mechanism that has developed to achieve the desired result is fiscal transfers, or equalization payments, from higher levels of government to lower levels of government. For Canada, these kinds of arrangements have developed to a relatively high degree of sophistication, particularly at the national level. The basic structure of these arrangements is that the federal government undertakes to help other governments make all of the basic public services available at a standard equivalent to a national average, while assessing taxes at no higher levels than national averages. It does this by making payments to provinces and territories as equalization payments.

The federal government thus becomes an important force in attempting to assure economic equality, at least in terms of the provision of basic public services. During times of large deficits and fiscal restraint, however, pressures always exist to reduce the federal government exposure under these programs.

The federal government commitment to fiscal equity is obviously something that is important to Yukon. The maintenance of an acceptable standard of living for Yukon people will depend upon a continued federal government commitment to fiscal equity, and a fair application of the principle to Yukon.

It should be recognized that some critics question the idea of fiscal equity, on the basis that it can reduce the incentives for population adjustments when regions face economic decline. The response to this criticism is that declining wages and salaries and rising unemployment create an already strong incentive for population adjustments, and that sub-standard public services are an unfair and unjust way to reinforce this pressure. Indeed, it can be argued that people, as a national right of citizenship, should have access to all public services on fair and equitable services; and that any movement away from this constitutes an infringement of Canada's essential national fabric.

One further point should be made in this regard. Public services are economic goods and services of value, just as are other goods and services. The fact that they are government provided makes them no less valuable or legitimate. And as such, they constitute an important and legitimate foundation for business opportunities and employment creation. Thus, fiscal transfers contribute directly to business activity and employment which is valuable and important to citizens. Stable fiscal arrangements with the federal government, based on a full acceptance of fiscal equity, are thus an important force in building and maintaining a strong and vibrant Yukon.

## OVERALL ECONOMIC STABILIZATION

Ever since the Great Depression of the 1930's, and following on the work of John Maynard Keynes, it has been recognized that governments can be an important force in ensuring that labour is fully employed, and business production capital fully utilized. Keynes and others suggested that recessions and depressions can be seen as situations where labour and plant capacity generally is employed at less than full capacity because people are unwilling to spend enough to ensure full employment. The problem, it is suggested, is that there is not enough overall spending, or total demand in the economy.

Likewise, the same kind of analysis suggested that inflation generally results from excessive total demand in the economy; or put another way, too much spending pursuing too few goods and services. Under these conditions, both employees and firms are able to continually increase wages and prices, resulting in the phenomenon of inflation.

A logical conclusion, applied to recession and depressions, is that governments can step in to encourage or directly increase spending, in this way taking up the slack until conditions again return to normal. Governments can encourage spending by cutting taxes, reducing interest rates, or increasing the amount of money in

circulation. Alternately, governments can increase their own spending directly by starting new capital projects or introducing new programs. All of these measures will have the effect of increasing total demand, and increasing employment and business returns. The increased employment and business returns will further increase spending, with the result that there is a multiplier effect resulting from any such measures.

The 1970's and 1980's have been a period of substantial debate about the wisdom and effectiveness of such measures. Some have argued that government measures to increase total demand will be ultimately self defeating since some inflation is an inevitable result, and inflation will deter people from spending more. Others have argued that too many government measures to increase total demand are irreversible, with the result that what is right at one point in time will turn out to be wrong for some future point. And yet others have argued that an acceptance of the Keynesian ideas results in progressively greater government involvement, which eventually produces incentives for private sector initiative.

Notwithstanding these arguments, it is generally conceded that government can be an important force in increasing overall employment and levels of business activity. The extent to which subsidiary negative effects can be guarded against nevertheless remains an important subject of debate.

One consideration here is important. The extent to which a government can affect overall demand for goods and services produced in its jurisdiction, and thus employment and business activity in the jurisdiction is dependent upon the extent to which the affected spending draws upon production from within the geographic area for which the relevant government is responsible. The smaller that geographic area, the more will goods and services consumed within it be produced outside the area; and the greater will any stimulate to spending be dissipated outside the affected area.

This has important implication for "demand management" measures contemplated by the Yukon Government. Generally speaking, measures which have a general impact (eg. tax cuts, general increases in government spending) will have more of an impact outside of the Yukon than within it. As a result, general economic stimulation is not considered to be an appropriate goal for the Yukon Government. The impact on Yukon employment and business activity will likely be small, and thus much less cost effective than measures targetted to specific sectoral development opportunities with relatively large Yukon payoffs.

## ECONOMIC GROWTH AND DEVELOPMENT

One of the important considerations that needs to be taken into account when examining the role of government in the economy, is the whole complex question of growth and development. To some degree, these are two separate, but related questions.

Economic growth generally refers to the capacity and ability of an economy to increase its production capacity, and to capitalize upon such improvements in its productivity capacity. Economic growth is dependent upon a number of things, including new investment, the development and utilization of new technologies and new production techniques, improvements in the skills and knowledge of the work force (including management), and dynamic and creative entrepreneurship. And it is dependent upon all of these things being applied to activities that will secure future opportunities. An appropriate growth strategy will yield two results: increased productivity and increased real incomes for the affected population.

Economic development, on the other hand, can be seen as a somewhat more complex outcome, related to a more comprehensive view of the process of economic change and adaptation. Economic development goes beyond the simple goals of growth and improved real incomes, and also encompasses goals of increased independence, structural change which assures that growth is realized in those areas which have the greatest long term benefits, and improved quality of work and quality of life. As such, developmental goals are much more complex and general than those implied by growth alone; although growth can be, and usually is, encompassed within developmental goals.

Regional economic development encompasses one perspective on economic development that is extremely important in Canada. The structure of Canada itself has meant that generally speaking, many regions of Canada are economically disadvantaged, relative to others. In particular, Central Canada has historically, and continues today, to enjoy substantial advantages over other regions due to a larger population, lower transportation costs into major markets, and the concentration of financial and investment institutions within the region. The general result has been that much of the industrial and processing activity in Canada is concentrated in Central Canada, and that many of the major investment and other economically important decisions are made in Central Canada. Conversely, the other regions have tended to depend upon resources unique to the region for the economic well being, with few linkages to processing and manufacturing, and few regionally based financial and investment institutions.

In this respect, the Yukon is very much like other regions outside of Central Canada, when compared with Central Canada. The resource extraction industries make up a much higher proportion of the total

value of production, while the manufacturing and processing industries make up a much smaller proportion. Similarly with transportation. Aside from the small business sector, there is a high degree of concentration of outside or external ownership. Financial and investment institutions are owned and controlled by corporations with head offices in Central Canada, with the result that investment opportunities do not receive the same attention and the same support as in Central Canada.

In virtually all of the other jurisdictions in Canada, governments have viewed this situation as less than desirable, and have attempted to become a force for change through various provincial, and federal-provincial initiatives. These initiatives have tended to take the following forms:

- (1) the development of regionally based financial institutions, which have the sensitivity and flexibility to recognize and support regional opportunities. These have included private sector, public sector and co-operative institutions.
- (2) the development of incentives and special support for increased diversification of regional economies, to get away from resource based dependency. These have included support for diversification based on forward and backward linkages with the resource industries, which constitute the strength of the regional economies.
- (3) support for the development of regionally owned and controlled business corporations, particularly in those sectors which tend to be dominated by externally owned and controlled firms. Most of these supports are tied in some way to the need for regionally based entrepreneurship, particularly as it relates to new and expanding industries.
- (4) support for the improvement of goods based transportation systems.
- (5) support for the development of, and application of new technologies appropriate to the needs of, and opportunities within, the region.
- (6) support for worker and management training, appropriate for the employment and business opportunities of the region.
- (7) support for the development of new markets, particularly outside of the jurisdiction and outside of the country.

Clearly, given the similarities between the Yukon and many of the provinces of Canada, a strong case can be made for similar initiatives to be undertaken by the Yukon Government. The Yukon Government is also best equipped to identify the exact kinds of measures that will be acceptable to Yukon people. And the Yukon Government is best equipped to speak for Yukon people, and for the interests of the Yukon.

Obviously, a number of important measures of the sort referred to have already been initiated. But much more could be done. This is particularly true in the areas of financial institutions, investment financing, the development and application of new technologies, education and training, and the encouragement of Yukon based entrepreneurship.

In developing a strategy in this regard, two important general questions need to be addressed. The first is to determine what role public, and quasi-public enterprise should play in such a strategy. This is obviously a potentially controversial subject, but nonetheless important because of it. The second is how to finance those measures which will not be self financing.

Turning to the first of these questions, some general observations can be advanced. Most of the Western Canadian provinces, regardless of the political persuasion of the government, have concluded that provincially or regionally based enterprises, capable of entrepreneurial initiatives and the mobilization of capital, are essential if developmental goals are to be met in key sectors. And generally they have concluded that government must play a pivotal and critical role.

All have, as a result, established government owned investment financing institutions. Generally, these institutions fill some of the needs that are left unfilled by the established financial institutions. These government institutions commonly provide debt financing and associated financial services to business enterprises. In addition, some engage in equity financing, generally on a joint venture basis. The Yukon Government has recently enacted legislation establishing the Yukon Development Corporation. Clearly this Corporation could undertake many activities similar to those provided by many provincial government institutions.

At the same time, a number of provincial governments have taken steps to create enterprises explicitly intended to apply provincially based entrepreneurship and investment to particular sectoral opportunities, thereby reducing dependency on external enterprises for such initiatives. These have tended to be concentrated in the energy, resources, and transportation sectors. Typically these have been government owned enterprises, at least in the initial stages of development, although many have been partially or wholly "privatized" as they mature. Others have operated as joint ventures between government and existing

corporations right from the start. Examples are the Alberta Energy Corporation and Pacific Western Airlines in Alberta, uranium mining, potash mining and oil and gas in Saskatchewan, and forestry and energy in British Columbia.

In all of these cases, provincial officials maintain that these initiatives are instrumental in accelerating development, and in ensuring that development takes place in keeping with provincial interests. Increased investment and employment, increased retention of profits within the province, the creation of provincially based head offices, purchasing policies more responsive to the needs of local suppliers, and a greater capacity to pursue provincially determined development strategies are all cited as advantages of these initiatives. In general, there is also a belief that entrepreneurial initiative has been enhanced, compared to the situation where such initiative largely came from outside the province.

An important question for the Yukon Government and Yukon people is whether or not a similar strategy is applicable to the Yukon. In certain respects, this depends upon a judgement as to whether similar approaches would in fact work in the Yukon. It also depends upon whether the government can and/or should assume the risk that necessarily goes with the adoption of these kinds of general approaches.

It was suggested in the foregoing that other developmental measures are also worthy of consideration, some of which were indicated. However, as was also indicated, many of these are not self-financing in the way that public enterprises and quasi-public enterprises are. As a result, initiatives in these areas can be problematic in terms of whether they are worthwhile relative to the cost, and whether the government is in a position to finance them. Thus expenditures in support of such developmental initiatives must be assessed relative to the return that they will generate, and the fiscal capacity of government. For those that are worthwhile, fiscal capacity for the Yukon Government is clearly an important consideration. In the absence of sufficient Yukon Government finances to support them, an alternative is for the Yukon Government to seek federal support for such initiatives. Federal support can be justified on the basis of fiscal equity, and the federal responsibility to ensure balanced regional development across the country.

## SUPPORTING STRUCTURAL CHANGE

Many governments -- provincial, national and territorial -- have undertaken to support a restructuring of their economies in keeping with the changing nature of economic opportunities. Modern economies are virtually all feeling the pressure for structural change and adaptation, in response to rapidly changing economic conditions throughout the world.

Many factors have contributed to the changing economic environment. At the risk of oversimplification, a few of the more important can be mentioned. One is the effect of reduced consumption of many resource commodities as a result of the relatively high prices of the 1970's. In many cases, users of these products have either found ways of reducing consumption directly, or have found cheaper substitutes to which they now remain committed. Another is the impact of industrialization in previously non-industrial countries which have a lower wage and cost structure than do the older industrialized countries. In many cases, old established industries are simply no longer competitive (eg. textiles, economy cars, small appliances, etc.) A third is the impact of new technologies which have given the competitive advantage to those with the greatest ability to adapt and implement such technologies. A fourth is the growing importance of the service industries in many modern economies, with incredible implications in terms of job skills, earnings and investment.

The impact of all of these factors differs depending upon history, geographic location, resource dependency and degree of industrialization. However most economies in the mature industrialized countries have been affected to a significant degree.

Many governments in Canada -- federal, provincial and territorial -- have attempted to respond to these changes in order to assist the process of adaptation and change. The basic assumption, which is quite valid, is that the whole structural orientation, meaning the relative importance of the different sectors, is going to have to change. The basic goal is to assist in this process of change, in order to decrease dependency on declining industries and to increase the importance of expanding industries with new opportunities. A secondary goal is to cushion the impact of change, so as to minimize the amount of hardship and disruption associated with change.

The overall policy thrust in this regard is often referred to as "industrial strategy". In order to make it work, it needs to include three primary components. One is effective planning, in order to anticipate the future and to identify where new opportunities lie. A second is the ability to identify constraints to change, and the implications of change. And a third is to develop policy instruments which will positively contribute to change, and cushion the impacts of change without interfering with change itself.

There is much debate about whether such an industrial strategy is within the reach of governments. Many suggest that governments cannot acquire the needed information about the future, and that they cannot respond quickly enough to changing circumstances, to make the whole thing workable. Others respond with the claim that no economy can respond quickly enough and with the required cushioning of impacts, unless government is itself a force in the process of change.

In general, it appears that changes in industrial structure are best accommodated and facilitated if government acts as a supportive force in the whole process, without becoming the controlling force. And in general a strong argument can be made for the active involvement of provincial and regional governments, with their relatively close identification with needs and opportunities.

As such, it is suggested that the Yukon Government can play a role in the re-structuring of the Yukon economy currently underway. (This re-structuring is discussed in another paper for this conference on diversification and industrial re-structuring.) And one very important contribution that the Yukon Government can make is in facilitating co-operative planning. For this reason, Yukon 2000 can itself perhaps be seen as one of the most important contributions that the Yukon Government can make to the process of structural change. Understanding the nature and direction of change is the first pre-requisite to understanding what can be done to facilitate change. Creating such understanding is one of the greatest potential benefits of Yukon 2000.

## SUMMARY AND CONCLUSIONS

This paper has identified a variety of ways that governments may be an important force in a modern economy, and particularly the Yukon economy. These are summarized in the following.

Sectoral instability, such as that experienced by important parts of Yukon mining, can have serious impacts on employment and investment. To the extent that periods of low prices and reduced production are a temporary condition, government can make an important contribution to longer term stability through assistance to maintain employment and output. Difficulties can arise however, if expectations for recovery prove to be unfounded, or overly optimistic. In these cases, it will prove both difficult and unwise to maintain such support.

Public utilities provide a number of essential services to people and industry. Such utilities generally make an important contribution to the development of a region. Because of this fact and the monopoly structure of utilities, government generally assumes an important role in guiding and directing such utilities. The two mechanisms for doing so are regulation and public ownership. Public utilities in the Yukon include electricity generation and distribution, telephones and telecommunications, pipeline transport of petroleum, and rail transport. The role that the Yukon Government can and should play in each of these cases deserves careful examination.

There are a variety of public services and public facilities which simply must be provided by the public sector, if they are to be provided at all with a reasonable degree of success. This is because it is extremely difficult for private firms to charge a price for their use, and thus almost impossible to depend upon private firms for their provision. Often these are extremely important to the economic development of a region. Included in this category are: the infrastructure underlying development (e.g. roads, airports, etc.), research and development, training, extension services, and public facilities such as parks and recreational facilities. Failure by government to provide these things can seriously undermine the development of a region, since many employment and business opportunities depend upon them. It is important that the Yukon Government take an active role in this respect, although the cost of financing them can be expected to be a problem. In order to address this problem, cost-sharing arrangements with the Federal Government must be actively explored.

Occasions arise when markets are unable to capture within them the benefits and/or costs arising from certain by-products of economic activity. When this happens, there are no incentives to take the effects of such by-products into account. One important example is pollution. Without incentives to reduce pollution, the implications for affected people or industries can be substantial. An efficient and productive economy can often only be realized if government is prepared to intervene in such cases.

Concentrations of economic power occur when a small number of large firms tend to dominate an industry. This can increase costs, and cause development to be less sensitive to local and regional needs and aspirations. The ability of governments to alter this situation is limited, although in the case of the Yukon, the government can achieve some redress through special measures to support small business development in the Yukon. This may include capital financing, technical assistance, and selective purchasing policies.

The distribution of income is a matter of considerable importance within any economy. The capacity to reduce inequalities must largely be the responsibility of government. The Yukon Government has numerous options available to assist in this regard. Included are measures to improve equality of opportunity in employment and business, through special measures aimed at the poor, women, and Indian people. These measures could include special training, selected business development assistance and affirmative action. The government may also address income inequalities directly either through income supplements, or through the subsidization of essentials such as education, health care, food, and housing.

The degree of equality in public services across regions in Canada is a matter of major concern. The achievement of such equality, without undue burden on the taxpayers of a region, has been explicitly accepted by the Federal Government as a national goal in order to ensure fairness and to support regional development. This is accomplished through various forms of equalization payments. The full development of the Yukon will depend upon the Yukon Government being able to ensure that the Federal Government fully respects the principle of fiscal equity in its financial arrangements with the Yukon Government.

Full employment, general business prosperity, and on-going growth and economic development are important goals of any society. In the Yukon, these are especially important because of the relatively remoteness of the region and Yukon dependence on uncertain and volatile external economic conditions. A simple reality of Yukon existence is that these goals cannot be realized without active involvement of governments. Some such actions, concerned with ensuring that economic demand for goods and services generally is adequate to maintain a buoyant economy, can only be effectively undertaken by the Federal Government. Others, such as measures to support the development of specific sectors or sub-regions, or to deal with specific developmental constraints, may very well be appropriate for the Yukon Government. Included in this category are investment financing, support for greater Yukon-based business initiatives, development of new technologies, skills development, and the development of external markets. Initiatives in this regard raise critical questions about a possible role for public sector enterprises, and about the relationship between public sector enterprises and the private sector. They also raise important questions regarding the financing of such initiatives. Structural change within the Yukon economy, much of it forced upon the Yukon by external circumstances, tends also to generate special and unique demands upon governments. Co-operative planning, involving all members of Yukon society, is essential if a positive response to such change is to be developed.

All of the above suggest important ways that governments, and the Yukon Government in particular, can be a positive force in the economy. The extent to which it can and should be such a force depends upon a number of things. Among these are the relative importance of the various goals of Yukon people, the capacity of government to mobilize the human and financial resources to do the job, and the willingness of people to accept government as a positive contributor to development. Maximum effectiveness of government will depend on reaching a consensus within the Yukon on the role government should play. A careful consideration of this question must be a priority as Yukon 2000 proceeds.