

# A new Chairman

Dr R. Boadway has been appointed as Head of the Department of Economics. Professor Boadway has accepted this appointment for a five year term from 1 July 1981 to 30 June 1986.

Professor Boadway was educated at RMC, Oxford, and Queen's where he received his PhD in economics. On completion of his PhD he joined the Department of Economics as a faculty member in 1973. He spent the 1975-76 academic year at the University of Chicago on a Post-Doctoral Fellowship and the 1980-81 year on sabbatical in Oxford. His research and teaching interests have been in the fields of the economics of government, cost-benefit analysis, and applied welfare economics. His published works include a book entitled *Public Sector Economics* in 1979, two recent monographs entitled *Canadian Tax Policy* and *Intergovernmental Transfers in Canada* published by the Canadian Tax Foundation, and *The Impact of the Mining Industries on the Canadian Economy* for the Centre for Resource Studies. Over twenty of his articles have been published in academic economics journals including 'A General Economic Computation of the Effects of the Canadian Tariff Structure' which won the Harry G. Johnson Award for the best article in *The Canadian Journal of Economics* in 1978. As well, he has prepared research reports for the Economic Council of Canada and the Ontario Economic Council. His most recent research papers are given in the faculty news section.

In announcing this appointment, Principal Watts paid tribute to Professor David Smith, Head of the Department since 1968, under whose leadership the Department has extended its outstanding international reputation. Dr Smith will be returning to full-time academic duties following his sabbatical leave.

# A Message from the Chairman

## THE END OF AN ERA

The event of an otherwise eventful year was the roast held in honour of David Smith to mark the end of his lengthy tenure as Head of the Department. It was held in the Citadel Inn in Halifax to coincide with the annual meetings of the Canadian Economics Association at the end of May, and was attended by present and past colleagues and graduate students and other assorted friends of David. The event was a congenial affair, reflecting the state of the Department as David left it. Everyone went away elated including David and his wife Mary who were honoured with airline tickets to the destination of their choice (return, of course) as well as a camera to verify that the tickets were used. Despite the lightheartedness of the event, there was not a soul in attendance who did not appreciate the yeoman work that David did in building up the department to its present international stature. In this he was a fitting successor to the line of distinguished heads.

D.C., as he is affectionately known to his colleagues, presided over the rapid growth of the Department during the 1970's, a decade which saw large increases in both graduate and undergraduate students and in faculty size. By a rare combination of persistence, persuasiveness and judgment he succeeded year after year in attracting the cream of the crop of new academic economists, despite the concurrent rapid growth of competing institutions. The combination of high quality persons and a congenial research atmosphere have succeeded in making QED the most productive of Canadian economics departments. One telling indication of this is the health of the graduate programme, which now attracts a very high calibre of student. No other Canadian economics department can boast that it has placed its graduates in the faculties of all the major universities in Canada. A glance at the 1981 programme of the Canadian Economics Association will provide further evidence of the vitality of the Department. Of 32 sessions in the programme, Queen's faculty or graduate students participated in 18, on which 11 they were actually presenting one or more

papers. I think my colleagues will agree with me that David deserves a great deal of credit for this state of affairs.

We in the Department have mixed feelings about David's stepping down. While he will be missed as Head (who else could say 'no' so convincingly?), we look forward to being able to interact with him more, as a colleague in research and teaching. For those who were unable to attend the D.C. Smith Roast we are including in the Newsletter a transcript of the talk given by David in response to his roasters.

## OTHER ACTIVITIES OF THE DEPARTMENT

The year was a typically busy one in the Department as the subsequent pages will attest. As usual we had a steady stream of visitors through for varying lengths of time. In the fall, we were honoured to have Franco Modigliani of MIT deliver the W.A. Mackintosh Lecture entitled: 'A New Look at the Monetary Mechanism.'

Agnar Sandmo, a distinguished economist in the field of public finance from Bergen University in Norway, visited for three weeks in the summer of 1981 under the auspices of a Social Sciences and Humanities Research Council visiting scholar grant. David Laidler of University of Western Ontario and Pierre Fortin of Laval each spent a week with us. A representative list of visiting speakers included Gerard Debreu (Berkeley), Richard Quandt (Princeton), Sherwin Rosen (Chicago), Ronald McKinnon (Stanford), Peter Neary (Dublin), Ronald Jones (Rochester), Andras Slahó (Hungary), Peter Hammond (Stanford), Lawrence Weiss (Yale), and others. In addition, the Department brought a number of participants to two conferences held this year. One was the first of the John Deutsch Round Tables on Economic Policy, and the other was the Public Finance Workshop. Both are reported later in this Newsletter as are activities and awards won by individual faculty members.

## THE BEGINNING OF AN INSTITUTION

This publication of the QED Newsletter for the second consecutive year makes it an institution. Our intention is to

# The Department Relaxes...

continue with this Newsletter on an annual basis. The response to our experimental issue of last summer was encouraging. It seems as if a number of graduates appreciate being kept abreast of the ongoing work of the Department. In reply to our questionnaire, there were some suggestions as to how the contents could be improved. One common suggestion was to have some 'economics' content in the letter and we have moved a modest way in that direction. An excerpt from Richard Lipsey's Presidential Address to the Annual Meetings of the Canadian Economics Association held in May 1981 has been included. Some of you expressed a desire to have some news of graduates included in the Newsletter. While such a suggestion has a great deal of merit, it is unfortunately beyond our resources at this time to set up a system to keep track of graduates. The Alumni Office needs a full time staff to do just that. We therefore, decided to keep the same basic format as in the previous issue. Once again, we would welcome any suggestions you might have for changes and improvements in its content.

*Robin W. Boadway*

*On 24 May 1981, a dinner in honour of David and Mary Smith was held in Halifax, during the Canadian Economics Association Meetings, in order that as many as possible could attend. The evening was organized by Mike Abbott, Alan Green, Rick Harris, Alison Morgan, Doug Purvis and Gordon Sparks. Twelve people who had known David in his work rose to 'roast' him. The following is an abridged version of his reply.*

If one - or, more precisely, I - had been asked for a reason for a Queen's get-together tonight with friends, many reasons could have been proposed: the 140th Anniversary of the University, the 105th Anniversary of the first Economics course at Queen's, the 104th Anniversary of the first Economics examination at Queen's. It is probably the 103rd Anniversary of the first make-up supplemental examination at Queen's. It is the 90th Anniversary of the Department (if a chair constitutes a Department) - the first in Canada - one could have added nonchalantly as a sub-title to the event. Today being her birth date, the event, I think most appropriately, might have honoured Queen Victoria who granted Queen's its Charter in 1841. But it was only just recently that I discovered that the reason for this event was not a past Head of State but the passing state of a Head.

Now, always having believed that a good academic department reveres teaching and research and not administrative positions and, indeed, having taken pride in the almost total disrespect the Department has paid to the Head of the Department in the past thirteen years, I was of course shocked and outraged when I heard about this event tonight - what a lapse had occurred suddenly in the Department. I rebuked several colleagues; I cancelled my travel plans; I made it very clear that under no circumstances would I attend this event tonight - under no circumstances! That's what Robin Boadway will want to have in the job - *firm, clear, decisive, no-nonsense* decision-making. But a couple of days later along came our extraordinarily tactful Senior Administrative Assistant

and suggested to me that I might want to reconsider, and, well, so, that's what Robin will *have* to have in the job - flexibility, a spirit of compromise, doing *exactly* what one is told to do.

Several hypotheses were advanced to me as to why I should change my mind and I have been curious to test them out tonight. First, it was argued that the party was not a glorification of an administrative position, and it is thus with great relief rather than embarrassment that I have listened to the roasting, scorching, searing, comments tonight - totally inaccurate as they have been. Second, I was told that there were some people coming tonight who had been suppressing great oratorical skills and that to deny them an outlet would have created hair-raising experiences around the Department, although, obviously, a hair-raising experience would not have been totally unwelcome to the current Head.

Third, I was reassured about my worries that the party might upset the picture of abject poverty that I have painted to the Dean at recent salary and budget negotiations and, in addition, that it might upset the proposed reassertion of stricter Presbyterian values at the University. But it was pointed out to me that the party, indeed, could be viewed as adequate consolation for the forthcoming paltry salary increases this year. Finally, and this was the really persuasive argument, I was told that I would have the opportunity to respond tonight, to have my turn to roast, to engage in revelations, exposés, National Enquiry tid-bits, on the lives of most of you whom I know only too well. Clearly I do not have the time to tell all during the rest of tonight which is all the time that has been allotted to me. But let me begin at the beginning and develop a serious message for our times: a message that will make you realize that it is not necessary to score a hockey goal against Russia or York University in order to understand what the meaning of democracy is really all about at Queen's or in Canada.

Some of you may not realize that Pierre Trudeau and I came to power at the same time in 1968 - he on a wave of charisma and I less obtrusively. Some of you may not be aware that

our lives since then have been based on who could outlast the other. A little over a year ago he outbluffed me beautifully. I thought he really was resigning and I immediately told Queen's I was now ready to step down. While he has taught me a lesson on bluffing I have reflected on whether chairing the Queen's Economics Department might not have some lessons for him, including lessons on how to resolve constitutional conflicts and economic tensions in the Canadian confederation. With Milton Friedman's warnings about generalizing from the partial ringing in my ears I nevertheless offer the following lessons for saving our country, lessons which are based on close observation of the behaviour of Queen's Economics Department members, past and present.

First, both the Department and Canada are federations which must take a bickering bunch of self-seeking, utility-maximizing constituent parts and mould them into a cohesive, prosperous, harmonious bunch of self-seeking, utility-maximizing constituent parts. Now the problem here is, of course, a free-rider problem, best resolved without coercion, if possible, and pandering to the idiosyncrasies of some of the constituents. The Department, like the country, will have its Lévesques talking occasionally about separation, though never as much as the media and other competing departments would suggest. The only way to handle such problems, of course, is to run the promised salary or DREE grants up to the point where the marginal return of the last dollar is just equal to the cost of replacement, and, if that fails, to use the DREE grants, or the salary savings, to buy or grab Ohio, Illinois, Bob Solow, John Helliwell, or Arizona. Now cohesiveness stems in part from a confidence that the federation will survive prosperously. But Ohio can't be bought, you may object. Unfortunately, neither can Helliwell, I reply! The point is, of course, there are varying degrees of integration - more trade, more seminars, more Mackintosh Lectureships - they give you much of the benefits.

On the whole matter of replacements or greater degrees of external integra-

tion one must obviously have an appointments committee or a federal-provincial conference to give the illusion of listening to advice. But equally obviously, one must work out in advance what everyone will believe and advise in order that you don't get captured by advice. You will need to know that Russell Davidson will want another mathematical economist and that British Columbia will want Alaska; that Green, Lewis and McInnis will want another economic historian and Ontario will want Florida; that Nancy Olewiler will want another resource economist and Newfoundland will want the whole Atlantic Ocean.

A further point - federations, whether they be academic departments of independently-minded people or countries of independently-minded provinces, will occasionally face a situation when there is a windfall gain to one of the constituents in which all the others will wish to share. The trick is how to grab and redistribute that gain without losing that constituent from the federation or destroying the incentives for the creation of the windfall gain. We tend to think that oil and Alberta are new problems for a federation but the same issues arise when, in a Department, one stumbles upon a person who can actually teach and draw students. This natural talent or resource can bring budgetary gains, but gains in which others in the federation will wish to have a share. Chairing a department such as the department at Queen's University would prepare one for the tactics that will emerge in both cases. Thus, bad teachers will tend to play down the monetary value that should be assigned to teaching, just as provinces without oil, such as Ontario, will want to keep down the price of oil. There will be arguments that good teaching is a fluke, whereas only research is meaningful hard work. Similarly, it is sometimes argued in the manufacturing heartland of Canada that resource profits are less meaningful for Canada than manufacturing profits.

A second major lesson that I would draw for Queen's and country is that a department and a country need a Dean, a God, or the United States to blame for things you don't want to do, and

thereby to get agreement on things you do want to do. There is much danger in allowing expectations to rise too high over what a department or a country can do by itself. Instead of saying 'no' or shrugging my shoulders, I have found it much easier to blame the Dean. I was thus surprised that it was only at the last minute that Mr Trudeau slipped God into the proposed new Constitution. But, does God exist?, you may ask. Does the Dean exist?, I reply. Does the Principal exist for that matter? Many of you have been at Queen's for long periods and have never gone out of your way to verify their existence! You have only my word that they exist as the cause of all the negative decisions that I have had to hand down to you.

A third lesson I would draw for Queen's and country: my experience suggests that there is a type of specialist adviser that the Prime Minister may have overlooked. At the University where I first began teaching I was surprised to discover that the head of the Student Health Services was a paediatrician. Understanding children's behaviour, he pointed out to me, provides key insights into problems in a university. It was not until I had been a Department Chairman for several years that I understood just what he meant. I once heard Abba Lerner argue that economists should study the resolution of disputes in nursery classes before trying to advise on international affairs. Thus, I suggest that, in trying to resolve our economic and constitutional conflicts, the Prime Minister should indeed summon the best economic minds from the distinguished assembly in front of me but that he might also wish to consider important complementarities in economic and paediatric advice.

The final lesson. In being located in Kingston the Department, like Canada, has been built in defiance of geography, though not as much in defiance as competing academic departments have implied to job candidates. How should one solve this problem? The economist's kneejerk reaction to use the price mechanism is, as always, correct, but, when the department can't even pay a decent salary what does one do? Obviously, it is difficult to raise the cost of living elsewhere - but one

# Excerpts—CEA Presidential Address

by Richard G. Lipsey

should try. Surely you will say, it would be difficult for Mr Trudeau to raise the cost of part of Canada moving off to live elsewhere. But was it easy, I reply, to get the price of housing soaring in Vancouver recently to head off job raids? When Governments were enticing many from academe with outrageous offers of power and wealth, was it easy to get governments to be even less receptive to economics lessons than students? Hiring at Queen's was easier when US cities were in turmoil and the Viet Nam War meant negative aspects to life in the US. Are those things easy to engineer? I ask you.

In conclusion, I wish to return to my opening theme. When an organization of a governmental form is needed to produce some collective services, there are several dangers: dangers of usurping other production best left private, of building stifling hierarchical structures, of implying that officers of that organization deserve accolades simply because of their position. The real production and action in the Department, I am delighted to say, is at the individual teaching and research level. It is also at that level that the most important collective services promoting collegiality and interaction are produced. My wife and I are most grateful for this dinner and the extra effort that so many of you have made to be here tonight. We appreciate it all and thank you most deeply. I only wish it were somehow possible to have something similar for other Queen's economists, but, with a new Department Head, we must all learn that there are limits to what can be slipped through the visiting speakers' budget. Nevertheless, if this had been an awards night, there are many awards I would wish to have handed out. Let me announce a few... This last award is not a consolation prize, it is simply the 'Very Best Wishes' Award, and that goes to Robin Boadway.

## The Understanding and Control of Inflation: Is there a Crisis in Macro Economics?\*

Delivered in Halifax, 26 May 1981

*... the sweeping indictment (that orthodox Keynesian theory is 'wildly incorrect' and 'fundamentally flawed') confuses two kinds of crises. One is the crisis of whether these orthodox models have captured the world itself. The second crisis which I believe is the real problem is that the world we capture is extremely hard to tame, to cure from inflationary shocks ... So the crisis is right there in the structure of the world, not in our ability to capture that structure.*

Franco Modigliani (1978, p. 195)

My thesis is that Keynesian macroeconomics is a 'progressive research programme' within Lakatos' definition of the term (Lakatos, 1978, especially Chapter 1). As such it is fulfilling two criteria. First, it is continuing to prove resilient in explaining new observations that at first seemed in conflict with its basic tenets. It incorporates and explains what we see within its broad hypothesis without having to explain away inconvenient facts on a totally *ad hoc* basis. Thus it provides a coherent, evolving explanation of the macroeconomic behaviour of the Canadian and American economies (which like all coherent theories may, however, be wrong). Second, it continues to make strong predictions that conflict with those of its principal rivals. So far these predictions have a pretty good track record.

The picture of the world that is evolving from the progressive Keynesian research programme is, however, one in which it is extremely difficult to reduce entrenched inflation. A crisis does therefore exist, but not in the inability of Keynesian theory to explain the world we see, but in the inability of traditional policy instruments to influence the world that is described by that

theory. *The crisis is real, but it is a crisis of policy not a crisis of our theoretical understanding of the world of experience ...*

(Dr Lipsey went on to discuss the key characteristics of the Neo-Keynesian view of the World.)

It is often alleged that the experience of the 1970s tipped the balance of evidence against Keynesianism and towards monetarism. It seems hard to me to sustain this belief. Consider the two main events that posed problems for explanation. First, the stagflation of 1974-6 easily fits into the Keynesian model where, because of its asymmetry, supply shocks raise the price level and lower output. In contrast some monetarists predicted that supply shocks would not raise the price level.

*... what of oil and food to which every government official has pointed? Are they not the immediate cause of the price explosion? Not at all. It is essential to distinguish changes in relative prices from changes in absolute prices. The special conditions that drove up the prices of oil and food required purchasers to spend more on them, leaving less to spend on other items. Did that not force other prices to go down or to rise less rapidly than otherwise? Why should the average level of prices be affected significantly by changes in the prices of some things relative to others?* Friedman (1975).

To Friedman's last question the neo-Keynesian answers 'because the asymmetry between upward and downward adjustments means that when some prices are forced up other quantities rather than other prices will fall at least in the short run.' (Surely here is a clear test. Friedman predicted no change in the price level and hence no change in aggregate output and employment following an unaccommodated supply shock. (With the paths of P, M and V unaffected, the path of Y must be unaffected as well.) Neo-Keynesians predicted a rise in the price level and a fall in output and employment. Is it too optimistic to believe that the late Arthur Okun was right when he wrote shortly before he died (Okun, 1981), 'No professional economist will ever again insist (as some did in 1974) that a major rise in the price of oil cannot

\* I am indebted to Scott Gordon, David Laidler, Milton Moore, Douglas Purvis and David Smith for many helpful comments and suggestions. I am also indebted to Gernot Kofler and David McGeachie for valuable research assistance as well as for valuable comments.

raise the price level since it merely pushes other prices down? I hope Okun is right, but I for one am going to keep my eyes on *Newsweek* just to be sure!

Second, the experience of 1976-79 is predicted by the Keynesian asymmetric model. Writing in 1974, for example, Tobin predicted that it would take a very long time for sustained aggregate demand restraint to reduce the inflation rate:

*The short-run Phillips curve is flat at high rates of unemployment. Since it is steep at low rates, a much longer time is required to unwind an inflation than to generate one. In the circumstances, neither monetary policy nor aggregate-demand policy is in general a useful tool.* Tobin (1974), pp. 231-2).

He could hardly be said to have been proved wrong by events. On the other hand, I suspect that any monetarist who believed that M1 was an appropriate monetary magnitude to control, and who was given in 1975 an advance look at the Canadian M1 data for the next six years, would have seriously underpredicted the 1980-81 Canadian inflation rate.

So the belief that the 1970s upset the Keynesian paradigm is wide of the mark. It is not my purpose to argue that the Keynesian model has come out superior to all contenders on all counts. All I wish to argue is, the bare minimum claim, that it is still alive and well and not doing too badly - thank you very much.

The major current challenge to the neo-Keynesian paradigm is the new-Classical model, where markets always clear and individual agents are always in equilibrium, and where the theory of rational expectations requires that people do not make systematic errors. This new-Classicism is a serious, indeed revolutionary, idea. It holds that the whole Keynesian disequilibrium approach was a blind alley. From the point of view of the sociology of knowledge this new theory is a fundamentalist call for a return to the purity of the past. From the point of view of economic science its claims must eventually be judged in comparison with neo-Keynesian models against the only finally important test, the ability to explain and predict factual observations.

The major contribution of the new-Classicism that is here to stay is rational expectations. This theory has substantially altered neo-Keynesian views on expectations. First, we are much more aware than we ever were in the past of the importance of expectations in our models. Second, there will be no going back to such *ad hoc* theories of expectations formation as the naive adaptive expectations model. The Keynesian model will no doubt be enriched by better, and hopefully more empirically oriented, theories of expectations formation.

Conflicts between the two models arise mainly with the market clearing assumption (of the new-Classicism) in which misperceptions are the sole explanation of deviations from long-run equilibrium. The Keynesian model of the firm with flat marginal cost curves and downward-sloping demand curves yields non-market clearing in the sense that firms can be willing to sell more at the going price if there were more demand for their product while prices do not fall. (Can anyone doubt that there are firms in this position today?) The Keynesian model of labour market behaviour allows labour markets not to clear in the sense of the existence of unemployed workers who would be willing to work at the going wage rate while existing unions would not be willing to moderate their wage demand by 3 per cent even if their best *revised* estimate were that the rate of inflation was going to moderate by 3 per cent.

The other major challenge comes from monetarism in its more general guise (without full new-Classicism and rational expectations). Here the differences are smaller. No neo-Keynesian any longer denies the transmission mechanism from changes in 'the' money supply, M, to changes in aggregate demand, AD. Neo-Keynesians are inclined to define the transmission mechanism as going from money to aggregate demand, and to leave the separate closure mechanism to divide the effects of shifts in aggregate demand between real national income and the price level. Monetarists are inclined to define the transmission mechanism as going from money to money national income. (PY). As Laidler (1978) shows, this definition gets them into some real problems since

the relation is not a unique one.

More important is the question of symmetry with respect to expansionary and contractionary monetary shocks. Neo-Keynesians accept the link from M to AD but then allow for an asymmetrical influence of AD on P. Monetarists by linking M directly to PY sometimes implicitly assume a symmetrical influence. Here ought to be the makings of a critical test.

A second possible asymmetry is also worth mentioning. Keynesians and monetarists both agree that rapidly increasing the money supply is a sure way to increase aggregate demand. On the downside they are not so unanimous. Surely one of the hallmarks of monetarism is that monetary restraint will effectively reduce aggregate demand. Some neo-Keynesians are not so sure; they fear that the flexibility of institutions and general human ingenuity may make it difficult to exert sustained pressure for aggregate demand to fall by using the traditional levers of monetary policy. For example, money substitutes may be invented to circumvent the restrictive policy that is applied.

In summary, Keynesians accept (and here some of them needed to learn from early monetarists) that changes in M exert a strong influence on AD in an expansionary direction and possibly also in a contractionary direction (although there is less argument among Keynesians on the downside). They are clear, however, that changes in AD have asymmetric effects: when  $Y = Y_F$ , increases in AD mainly raise P while decreases in AD mainly reduce Y. There tends to be less asymmetry in the monetarist model; increasing the rate of monetary expansion will raise the inflation rate; reducing monetary expansion will lower inflation.

The observed empirical relation is clearly asymmetrical, at least in the short term. So monetarists must specify time horizons. How much asymmetry do they allow and for how long? Not many of them seem to me to have committed themselves to statements that would provide tests. Neo-Keynesians are clear, they say it would take a long time and calculate the lost output needed to cut inflation (See, e.g., Tobin (1980), pp. 66-70). . .

(Dr Lipsey's fourth and final section concerned policy implications.)

The public is understandably impatient with economists' ignorance on how to reduce inflation. The ignorance is, however, itself understandable and we should not develop any professional inferiority complexes about it.

We have plenty of historical experience on how to create an inflation. Any economist could create 20 per cent inflation in Canada given nothing more than control of the monetary levers. This is impressive evidence that we do know something.

This is the first time in modern industrial countries, however, that we have tried to eliminate (or at least greatly reduce) an ongoing, entrenched, peacetime inflation. Also we are trying to do it under much altered institutional settings. For a long time people believed in the dollar standard in which a dollar was a dollar today and a dollar tomorrow. Rational firms were, for example, willing to make long term contracts stated in nominal money units. This belief is now completely gone and many accommodating institutional changes have been made. The stabilizing force of belief in an approximately constant price level is gone and we have little experience of how the economy will actually respond to restrictive measures designed to reduce the inflation rate in these circumstances. Competing paradigms make different predictions. The degree of ignorance, uncertainty and conflict among inflation-control theories today is, I believe, no more than in any other empirical science when a wholly new phenomenon is encountered or a novel experiment is tried that produces unexpected results. Without doubt, 5 years down the line the balance of evidence will be more clearly tilted towards one or another of the theories of how the economy behaves on the downside of inflationary pressures when confidence in the dollar standard is absent.

In the meantime, we make educated guesses based on our reading of how well competing models fit the facts we already have available.

What would I do in this situation?

First, monetary restraint must be maintained. To give in to the clamour to drive down interest rates below their

free market levels would be both to lose control of the money supply and to fulfill the sufficient condition for rising inflation and to remove at least one necessary condition for reducing inflation. Further, the Bank of Canada should stop supporting the Canadian dollar and follow the basic monetarist tenet that it must target on the money supply and let interest rates and the exchange rate fall out where they may. This incidentally would have permitted interest rates to be at least two points lower than they were at the time of writing.

Second, we should continue with the gradualist monetarist experiment of slowly reducing the rate of monetary expansion on the assumption that this is a major requirement for reducing the inflation rate. Indeed the policy should become less gradual.

We have in Canada today a purely monetarist experiment. The Bank of Canada has met its targets for reduced rates of M1 growth pretty consistently since 1975. But the winding down has been so gradual that a couple of policy errors, a shift in the demand for money, and a less than perfect ability to control M1 have almost swamped the overall effects of the very gradual reduction in the rate of monetary expansion. Many monetarists are thus able to argue quite plausibly that monetarism hasn't yet been tried in Canada (Courchene (1981)). Extremists on either side will never be convinced by evidence. But it would be a tragedy if after, say, 7 years of monetarism there was not enough evidence to allow those who wish to learn from experience to take an informed view on the experiment.

Third, the Bank of Canada should get some strong help currently totally absent from fiscal policy. The government should cut expenditures drastically. Then we might be able to restrain demand with means that exert temporary pressure to lower rather than to raise interest rates. This might also influence inflationary expectations by persuading people that the government was serious about the anti-inflationary battle.

Also, the government could try to get more control over public sector wage settlements. All current wage settle-

ments give a gloomy outlook for inflation control, but the spectre of public sector wage settlements running well ahead of private sector ones is really disturbing.

And while they are at it, the government might think about de-indexing public sector pensions. How can the private sector feel the government has a real stake in controlling inflation when the public sector alone has an absolutely secure escape route if control proves impossible.

Finally, the government should understand that if it forces the Bank of Canada to follow a policy of lowering interest rates sufficiently so that control over the money supply is lost, it will have abandoned the fight against inflation. The government should let Governor Bouey stick by his guns. I don't think he will halt inflation on his own, but all major competing paradigms join in predicting that if monetary restraint is abandoned, accelerating inflation will be the consequence.

I have no clear way to foresee the future, but if I have to guess I think the judgment will be that the present monetary policy is not sufficient. My guess here is that the two Keynesian asymmetries may be operating. Consider first the possible asymmetry between the effect of monetary expansiveness and monetary restraint on aggregate demand. At the outset of the decade Kaldor (1970) predicted that *whatever* the monetary magnitude the Central Bank tried to control, effective control would lead to institutional innovations that would allow this magnitude to be economised on because uncontrolled close substitutes would be used instead. The evidence is certainly consistent with Kaldor's view on the endogeneity of monetary institutions (see e.g. Porter et al. 1979). But we would expect high inflation rates alone to induce financial innovations by increasing the negative yield on M1 balances. What we don't yet know is how much of this innovative activity is exogenous to monetary policy (caused by high inflation rates alone) and how much is, as Kaldor predicted, endogenous to monetary policy - a response to tightness of the M1 supply.

My guess, however, is that monetary policy will have to be altered to target

on some broader monetary magnitude than M1. Otherwise, the clear tendency for the Canadian velocity of circulation of M1 to rise every year since 1975 will end up with the Bank controlling a variable whose magnitude goes to zero and whose velocity goes to infinity. In this respect I agree with Courchene (1979).

Now consider the second and more fundamental Keynesian asymmetry. Keynesians believe that, even if monetary restraint does succeed in reducing aggregate demand, the effects will be mainly for output and employment to fall, while substantial reduction in the inflation rate will be slow in coming.

So we should not wait forever for the monetarists' long run which may come, according to neo-Keynesian theory, when we are all dead. What if we have to conclude 2 or 3 years down the line that gradual monetary restraint of the sort that is feasible in Canada leaves the underlying inflation rate almost unaffected?

One alternative is to induce, Margaret Thatcher style, a large enough recession to do the job: really fierce restrictive monetary and fiscal policy to sustain a 1930-style recession long enough to bring the inflation rate down. The neo-Keynesian paradigm is pessimistic on this policy. It predicts that the cumulated loss in output would be very large indeed. For those who like myself tentatively accept the neo-Keynesian evidence, this is not the next line of defense but the last desperate measure when all others have been tried and have failed.

To a neo-Keynesian, the preferred alternative may be to try some form of incomes policy. I am persuaded that the administrative difficulties for tax-related incomes policies (TIPs) would be fierce. I have been a long-term opponent of wage-price controls. I opposed them in 1975 because the government had not yet tried traditional monetary and fiscal policies (Lipsey (1976), pp. 39-42) and because I thought it would be an excuse, as it was for two decades in the UK, for doing little else by way of anti-inflationary policy (Lipsey (1977a and 1977b)). By themselves they are clearly not sufficient, and since they do involve major costs they should not be used as the anti-inflationary instrument.

But if present policies do not work I would be prepared to try controls as a part of a full policy package which I shall outline in a moment. There would of course be constitutional problems and labour's hostility would be understandably strong. The late AIB's philosophy was based on the assumption that because under normal market conditions prices tend to follow wages, the same thing would happen under the abnormal conditions of enforced wage restraint. The AIB had some modest restraining effect on wages, but that prices did not fully follow wages is a good example of Lucas' warning that the empirical relations of one policy regime cannot be expected to stand up under another policy regime (Lucas, 1976). It was also predictable on past evidence. For example, in 1976 I wrote, 'There seems to be more evidence of some modest restraining effect on wages than on prices, and, thus, that incomes policies may sometimes be more effective in redistributing incomes from wages to profits than in restraining price inflation.' (See Lipsey (1976, p. 54)). Given the past experience labour's voluntary cooperation will be difficult to obtain, and its enforced adherence should not be asked unless strong price and profit controls accompany wage controls. It should be made absolutely clear that the controls are solely anti-inflationary policy and we expect to come out of controls with an unchanged distribution of national income between wages and profits ...

(Dr Lipsey went on to present his detailed policy package. The full text of his address is to be published in the Canadian Journal of Economics, November 1981 issue.)

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# Recent Activities of Faculty

**John Baldwin's** year culminated with the March release of a seven volume study entitled 'The State of Competition in the Canadian Petroleum Industry'. The study, published by the Director of Investigation and Research, Combines Investigation Act, was the result of several years' work. The volumes of the study cover all sectors of this vertically integrated industry - international linkages and transfer pricing policies, the production sector, pipelines and transportation, refining, and marketing. In addition, the study considers the course of government policy and its effect on industry performance. These studies have been forwarded to the Restrictive Trade Practices Commission and will form the basis for hearings into the industry that will begin in late 1981. John Baldwin was called to Ottawa in 1974-75 to aid in the Petroleum study when the size of the task facing the government investigators made it clear that outside help was required. The Research materials used for the industry study were comprised of over 200,000 documents supplied by the industry, over 100 lineal feet of evidence filed in response to a request for statistical information, and numerous volumes of testimony by executives of the major oil companies. During the period between 1975 and 1980, he took on the task of directing the research, a small team of Combines officers, and the preparation of the final report.

The very scope of the task and the amount of research material meant the Petroleum Study eventually became the largest ever undertaken under the Combines Act. At the same time as the Canadian study was progressing, a similar study was being conducted by the Federal Trade Commission in the United States. Shortly after the Canadian study was published, the Americans gave up - primarily because they found the task unmanageable. The success of the Canadian effort must be attributed to the quality and energy of the staff. A number of Queen's graduates were involved at one or another stage of the process. These include Jim Bocking, Penny Gotzaman, Cal Gundy, Don Mercer, Brian Chambers, and Glen Clark. At the next stage of the inquiry, Gordon Kaiser - another Queen's graduate -

will be one of two council representing the Director of Investigation and Research before the Restrictive Trade Practices Commission.

Subsequent to the release of the Report, John Baldwin completed a cross-country lecture tour. Seminars were given at Dalhousie, University of New Brunswick, McGill, Carleton, University of Manitoba, Regina, University of Alberta, Simon Fraser, University of British Columbia, the University of Victoria and several US locations. Several more lectures are already slated for this autumn.

The Report provides a wealth of information on the functioning of the industry. For instance, it sheds light on transfer pricing policies. It also provides a glimpse of predatory type marketing practices that conventional wisdom in the industrial organization profession has characterized as nonexistent. It is expected that the material will provide the grist for studies by academics across the country in the next several years. Baldwin has already completed the first of several studies that he intends to do. It is a detailed analysis of government policy from 1958 to 1973 and its relation to the theory of regulation - an area that he feels the recent spate of Canadian studies in regulation has tended to ignore.

As part of the group which will help Queen's decide on future academic computing equipment, **Charles Beach** has spent much of his time this year on the task of exploring and weighing the needs and alternatives in computing for the university. This is a major decision for the university, because of the cost of the equipment and because the quality and size of the computing facilities are crucial to advanced research in many areas. Beach continued his research, however. He is working on maximum likelihood estimation with S. Yeo. He also has research underway on statistical inference with Lorenz curves and relative mean income curves. As part of a major project with S.F. Kaliski, he is doing research on labour market dynamics. He is currently working with R. Finnie on three papers on the modelling of earnings generation of

Canadian males. He also has research in progress on payroll tax incidence. *Distribution of Income and Wealth: Theory and Evidence for Ontario*, a study by Beach in collaboration with F. Flatters and D.E. Card for the Ontario Economic Council, will be published this year by the University of Toronto Press.

**S.F. Kaliski's** paper, 'Some aspects of the Nature and Duration of Unemployment in Canada' appeared in *Issues in Canadian Policy II, Proceedings of a Conference* issued by the Institute for Economic Research at Queen's. He has published an article 'The Recent Unemployment Insurance Act Amendments' in the spring 1980 issue of *Canadian Taxation*. He presented his paper, 'Inflation, Stagflation and Macroeconomics: Does Received Macro-Theory Explain our Economic Circumstances?' at the Universities of Calgary and Lethbridge. It appeared in *Canadian Public Policy*, VII, Supplement, April 1981. He prepared a report, *Labour Turnover in Canada: A Survey of Literature and Data* for the Canada Department of Labour. He is currently working on the joint project with Charles Beach on labour market behaviour in Canada, 1978-79, an exploration with Microdata, on an SSHRCC grant.

As reported elsewhere in the Newsletter **Robin Boadway** became the new Head of the Department on 1 July 1981. He spent his last days of freedom on sabbatical leave at Oxford University on an SSHRCC leave fellowship in 1980-81. He presented invited seminars at the University of Montreal, McGill, Essex, Liverpool, Sheffield, Warwick and Oxford Universities. His paper 'The Efficiency Basis for Regional Employment Policy' is forthcoming in the *Canadian Journal of Economics*, as is his review of *Welfare Economics* by Y.-K. Ng. The Economic Council of Canada will issue his paper with Alan Green, 'The Economic Implications of Migration for the Newfoundland Economy' as a discussion paper. He presented a paper entitled 'Regional Economic Policy in Canada' at the May 1981 meetings of the Canadian Economic



Association. His paper with N. Bruce and J. Mintz, 'Corporate Taxation and the Cost of Holding Inventories', was also presented at the meetings as was a paper with Frank Flatters 'The Case for Equalization Payments'. His paper with K. Norrie, 'Constitutional Reform Canadian Style' appeared in *Canadian Public Policy*, Summer 1980 and a comment on J. Helliwell 'Can Canada be Insulated from Developments Abroad?' was issued in *Developments Abroad and the Domestic Economy*, Ontario Economic Council.

In addition to his work with Bruce and Mintz, he is working on equalization payments, with Frank Flatters, and on a book on welfare economics.

**Frank Flatters** acted as coordinator of Canadian Hungarian Economic Exchanges for the Canadian Economics Association, presenting a paper, 'Problems and Mechanisms of Economic Adjustments in Canada' to the second Canadian Hungarian Roundtable in May 1980. He made a further exploratory visit to Budapest in April 1981. His joint paper with D. Purvis, 'Ontario: Policies and Problems of Adjustment in the Eighties', (also known as 'Ontario: Between Alberta and the Deep Blue Sea?'), appeared in *Developments Abroad and the Domestic Economy*, Ontario Economic Council, 1980. Joint papers, in progress and completed, with Boadway as well as the book with Beach are cited above. In addition he is working on the economic case for the Canadian Common Market with R.G. Lipsey and on a paper 'Will Productivity Improvements Necessarily Increase Employment in a Small Open Economy?'. He is also the Chairman of Graduate Studies.

**Jack Mintz** has current research interests in corporate taxation and risk taking, in incentives and public enterprise, and in the measurement of subsidies in government credit programmes. He was awarded an SSHRC postdoctoral fellowship 1980-81 and 81-82 and an Institute of Economics fellowship at Louvain, Belgium for 1981-82. His paper 'Some Additional Results on Investment, Risktaking and Full Loss

Offset Corporate Taxation with Interest Deductibility' is forthcoming in the *Quarterly Journal of Economics*. The University of Cambridge Press is publishing *Public Enterprises in Less Developed Countries: Multidisciplinary Perspectives* edited by L.P. Jones with E. Mason, R. Vernon, R. Rosenstein-Rodan and R. Mallon, which will contain the paper 'Mixed Enterprises and Risk Sharing in Industrial Development' by Mintz. His paper 'Corporate Taxation in Canada: Towards an Efficient System', with N. Bruce and R. Boadway is forthcoming in 'Tax Policy Options for the 1980's', Canadian Tax Foundation. Boadway, Bruce and Mintz will be doing future research together on the effects of taxation and inflation on the cost of capital of firms in Canada.

**Neil Bruce** was granted an SSHRC sabbatical leave fellowship for 1980-81 and spent the year at Stanford University. His paper 'Some Macroeconomic Effects of Income Tax Indexation' will appear in the September 1981 issue of the *Journal of Monetary Economics*. The paper 'Structural Changes in the Canadian Trade Balance' with H. Rostami was presented at the John Deutsch Roundtables in Economic Policy and will appear in the Conference Volume published by the Institute for Research in Public Policy. Another paper 'Corporate Taxation in Canada: Towards an Efficient System' written with R. Boadway and J. Mintz was presented at the Canadian Tax Foundation conference at Toronto in March, 1981 and will appear in the published proceedings. Research papers on the compensation principle written with R. Harris were presented at the Canadian Economic Theory Conference at UBC in May 1980 and the Canadian Economics Association Meetings in Halifax in May 1981. Another research paper 'Corporate Taxation and the Cost of Holding Inventories' written with R. Boadway and J. Mintz was also presented at the Halifax meetings. Current and future research is in the areas of welfare measurement, short run deviations from purchasing power parity, price rigidity, and corporate taxation.

**Gordon Fisher's** paper (with M. McAleer), 'Alternative Procedures and Associated Tests of Significance for Non-nested Hypotheses', appeared in the May 1981 issue of the *Journal of Economics*, while his article, 'Interest Rates and Durability in the Linear Expenditure Family', was in the May 1981 issue of the *Canadian Journal of Economics*. He presented his paper, (with M. McAleer), 'Principles and Methods in the Testing of Alternative Models' (IER discussion paper 410), at the annual meeting of the Canadian Economics Association, in Montreal, June 1980 and at the North American Meeting of the Econometric Society in September 1980. Another joint paper with M. McAleer, 'Alternative Procedures and Associated Tests of Significance for Non-nested Hypotheses' (IER 420) was presented at an invited session of the Conference on Model Selection at Gainesville, Florida and at the First Latin American Meeting of the Econometric Society in Buenos Aires. His work with M. McAleer also led to IER discussion paper 416, 'On the Consistency of Two Tests of Separate Regression Models'. IER discussion paper 411, 'Two Papers on Model Testing and Discrimination' contains another paper with M. McAleer, 'The Geometry of Specification Error' and a paper with A.W. Gregory, 'An Invariance Property of Generalized Classical Linear Estimators'. In IER discussion papers 377 and 410, Fisher presents 'Propositions, Principles and Methods: The Case of the Linear Hypothesis' and 'Propositions, Principles and Methods: The Linear Hypothesis and Structural Change'.

He is currently engaged in research on expenditure systems and money demand with Anders Klevmar, on tests of separate families of hypotheses with M. McAleer, and on dividends and taxation with J. Mintz. He has been awarded an SSHRC leave fellowship for 1981-82 when he will be on sabbatical leave in Australia.

**John Hartwick** continued work in natural resource economics. He was a guest of Professor Murray Kemp at the University of New South Wales in Sydney, Australia during August 1980. He presented a paper, 'Exploitation of

an Exhaustible Resource by a Dominant Seller and a Rising Cost Fringe Group', at the World Econometric Society Congress in Aix-en-Provence, France in September. While in the south of France, he toured Avignon and reported some reactions in 'In Search of J.S. Mill's Avignon Home', *The Johns Hopkins Magazine*, April 1981. He prepared a report, 'Rent and Selected Taxes in Gray, Hotelling and Related Exhaustible Resource Models' for Queen's Centre for Resource Studies and a report, 'Usage Sensitive Pricing for Telecommunications Services' with J. Brander and J. MacKinnon for the Department of Communications, Ottawa. 'Land Use in an Equilibrium Annulus', *Journal of Urban Economics*; 'The Intertemporal Externality in the Common Property Renewable Resources Problem', *Economics Letters*; and 'The Henry George Rule, Optimal Population, and Inter-regional Equity', *Canadian Journal of Economics*, appeared in print during 1980.

**James Brander's** paper 'Intra-Industry Trade in Identical Commodities' appeared in the *Journal of International Economics* (February 1981). A paper jointly written with Barbara Spencer on entry deterrence in international trade will be published in the *Canadian Journal of Economics*. Another paper jointly written with Barbara Spencer on optimal public utility pricing, which was presented at the first Canadian Telecommunications Conference in March 1981, will be published in a conference volume. In 1980 Brander delivered papers at MIT and the University of Western Ontario. Brander was awarded a postdoctoral fellowship by the SSHRCC for 1980-81. He will be continuing his research in imperfect competition in international trade.

**Michael Abbott** presented a paper entitled 'Econometric Models of Aggregate Strike Frequency in Canada: A Reconsideration' to the Industrial Relations and Labour Economics Seminar at Princeton University in December, and to the Labour Workshop at the University of Toronto in May. He is conti-

nuing work on this topic as well as on a model of trade union growth in Canada. Together with P. Kumar he is working on unionism and inter-industry wage structure in Canadian manufacturing. He is also writing an undergraduate labour economics textbook, with Orley Ashenfelter, for publication by Richard D. Irwin, Homewood, Illinois. Abbott will be on sabbatical leave in 1981-82, which he will be spending at Princeton University.

**Richard Arnott** became Secretary-Treasurer of the Canadian Economics Association at the May 1981 meetings. He is on the editorial boards of the *Journal of Urban Economics*, *Regional Science and Urban Economics*, and the *Journal of Regional Science*. His paper with Mark Gersovitz, 'The Employment Contract, Corporate Financial Structure and the Regulation of Private Pension Plan Funding' appeared in the *Journal of Public Economics* in 1980. He has articles forthcoming in the *Journal of Urban Economics*, ('Optimal Taxation for a State or Local Government') and in the *Economic Journal*, ('Aggregate Land Rents and Aggregate Transportation Costs'). He completed a study for the Ontario Economic Council: *Rent Control and Options for Decontrol in Ontario*. He spent the fall at CEPREMAP, Paris, working on transaction costs on a Canada-France Exchange Fellowship, January in Tel-Aviv, working on housing on an Israeli Government grant and the spring and summer in Princeton working on moral hazard and housing with support from the National Science Foundation and the SSHRCC.

**Lorne Carmichael** completed his doctoral thesis, 'Implicit Contracting and Seniority Rules' for Stanford University in December 1980. He has been awarded a postdoctoral fellowship by the SSHRCC for 1981-82. He delivered a paper on 'Firm Specific Human Capital and Seniority Rules' to the National Bureau of Economic Research Conference on Compensation, in Cambridge, Massachusetts in November 1980. He is currently doing research in the areas of

productivity and temporary layoffs and of teenage unemployment.

**Russell Davidson and James MacKinnon** are continuing their work on testing the validity of econometric models under a second grant from the SSHRCC. A joint paper, 'On a Simple Procedure for Testing Non-Nested Regression Models' appeared in *Economics Letters* in 1980. Their paper 'Several Tests for Model Specification in the Presence of Alternative Hypotheses' appeared in the May 1981 issue of *Econometrica*. 'Estimating the Covariance Matrix for Regression Models with AR(1) Errors and Lagged Dependent Variables' will appear in *Economics Letters*. Recent discussion papers include 'Some Non-nested Hypothesis Tests and the Relations Among Them' (#409) and 'Model Specification Tests Based on Artificial Linear Regressions' (#426). This research is expected to produce at least four more papers. They presented papers at Cornell, Harvard, MIT, Bell Laboratories, and at the Bank of Canada, and the Economic Council of Canada. In addition, a paper by MacKinnon and Allan Gregory, 'Where's My Cheque? A Note on Postal Strikes and the Demand for Money in Canada' appeared in the *Canadian Journal of Economics* in 1980. MacKinnon presented papers at the Fourth World Congress of the Econometric Society at Aix-en-Provence, France, and at Stanford, the Universities of California at Berkeley, Western Ontario, Saskatchewan and Alberta. He will be spending his sabbatical leave for 1981-82 at the University of California at San Diego on an SSHRCC Leave Fellowship.

Davidson's paper with Richard Harris, 'Diverse Information and Market Efficiency in a Monetary Model of the Exchange Rates' is forthcoming in the *Review of Economic Studies*. Davidson also presented papers at the World Congress at Aix-en-Provence as well as at a Theory Conference at Ann Arbor, Michigan, and at Laval and Princeton. He will be spending the fall term at Laval.

**Thomas McCurdy** arrived at Queen's from LSE in August 1980. His paper with Ernst Berndt and David Rose, entitled 'On Testing Theories of Financial Intermediary Portfolio Selection', appeared in the October 1980 issue of *The Review of Economic Studies*. In addition to working on his thesis 'Capital and Growth Theory in the Medium Term: A Framework for Non Steady State Dynamics', his current research interests include stability theory, dynamic general 'equilibrium' models, and history of economic thought.

**Gordon Sparks** presented a paper entitled: 'Expectations and the Choice of Monetary Policy Instrument in an Open Economy' at the meetings of the Eastern Economics Association, Philadelphia, 10 April 1981 and a paper entitled: 'Intertemporal Choice, The Public Sector and Canada's Balance of Payments' at the meetings of the Canadian Economics Association, Halifax, 26 May 1981. His sabbatical year 1981-82 is to be spent at MIT working on the theory of exchange rates and on a small econometric model of the Canadian economy. He is also working on *Macroeconomics*, Canadian Edition, with R. Dornbusch and S. Fischer, to be published in November 1981.

**Alan Green's** paper with Robin Boadway 'The Economic Implications of Migration to Newfoundland' is forthcoming as a discussion paper of the Economic Council of Canada. He is also continuing his work on basic economic statistics. His paper 'The Measurement of Net Income Originating in the Transportation and Public Utilities Sector' is circulating in mimeographed form. As General Editor of Volume II of *Ontario Mining Statistics* he is compiling and reconciling statistics on the Ontario Mining Industry from 1945 to the present. He has undertaken a company survey of labour costs for the Ontario Mining Industry. In 1980 he began two total factor productivity studies on Railroads and on the Iron and Steel Industry and preliminary estimates for Iron and Steel are now ready.

Estimates for the Railroad study required the collection of freight rates from 1855 to 1907; these rates are now in hand and have opened up a new area of research on transport costs in Canada. Green is also working on the financial implications of large scale capital projects.

**Klaus Stegemann** presented a paper, 'The Efficiency Rationale of Anti-Dumping Policy and Other Measures of Contingency Protection' at a Conference of the Canada-US Law Institute held at the University of Western Ontario in May 1980. This paper, which appeared as #387 in the discussion paper series of the Institute for Economic Research, will be published as part of the conference volume. His paper 'State Trading and Domestic Distortions in a Mixed World Economy' (#357) will come out this summer in *State Trading in International Markets* edited by M.M. Kostecki for Macmillan. He has added two other discussion papers to our series, entitled 'Monopoly as a Domestic Distortion Under Free Trade Conditions' (#379) and 'Wasteful Imports Due to Domestic Monopoly in Spatially Differentiated Market' (#427). Having completed a two-year term as Chairman of Undergraduate Studies, he will be spending the 1981-82 year on an SSHRCC leave fellowship at the Institute for Research on Public Policy in Ottawa, where he will continue his research on an economic evaluation of Canadian anti-dumping policy and related trade issues.

**Jon Harkness** served as a member of the Board of Editors of the *Canadian Journal of Economics*. His paper 'Canada's Changing Terms-of-Trade' is forthcoming in a Conference Volume published by the Institute for Research in Public Policy. 'Harkness's Ohlinian Hypothesis: A Reply and Further Results' will appear in the *American Economic Review* in September 1981. He delivered his paper 'Bilateral Trade and the Factor Proportions Model' at the May 1980 meetings of the Canadian Economics Association and to the World Congress of the Econometric

Society at Aix-en-Provence in August 1980. He presented his paper 'OPEC vs a Large Open Economy' to the Queen's-Toronto-Western workshop and at the University of Montreal in December 1980 and at the CEA meetings in Halifax in May 1981. He is currently working on the macroeconomic implications of OPEC and Hotelling's Rule, on inflation, unemployment and oil price shocks in a three-country world and on Canada's changing comparative advantage.

**Ross Milbourne's** joint paper with George A. Akerlof, 'The Short Run Demand for Money' was published in the December 1980 issue of the *Economic Journal*. He delivered his paper 'Payments Flows and the Velocity of Circulation' to the Monetary Colloquium at the London School of Economics. He also gave seminars at the Universities of Dortmund (Germany), Essex (UK), Toronto, McMaster, as well as at RMC and the Bank of Canada. This year he was an SSHRCC postdoctoral fellow; next year he will be on leave as a senior fellow at the Reserve Bank of Australia. He is currently working in the areas of optimal pricing and the threat of sales, on a theoretical approach to short run adjustments in money holding and on an empirical re-appraisal of demand for money functions.

**W. Donald Wood** attended conferences of the Saskatoon Personnel Association, the Saskatchewan Personnel Association, the Ottawa Personnel Association, the CBC E.R. Conference, the Canadian Daily Newspaper Association and Northern Telecom executives. As Director of the Centre for Industrial Relations he edited and contributed part of the Centre's 700 page annual reference volume *The Current Industrial Relations Scene in Canada, 1981 Edition*. He also was involved with the final editing of a large number of publications published by the Centre.

**Dan Usher's** book, *The Economic Prerequisite to Democracy*, was published

by Blackwell and Mott (UK) and Columbia University Press (USA). His note, 'The Welfare Basis of Real Income Comparison: Comment' appeared in the *Journal of Economic Literature* in December 1980. He is working on a study of federal subsidization of private investment as well as other topics in public finance.

**Dave Backus** completed his doctoral thesis for Yale University this year. It is entitled 'A General Equilibrium Financial Model of the United States'. He presented a paper entitled, 'Monetary Policy with Optimizing Commercial Banks' at the CEA meetings in Halifax. He has been awarded an SSHRCC Post Doctoral Fellowship for 1981-82. He is working on household demand for money and other assets, on optimal monetary policy when banks have rational expectations, and on empirical models of exchange rate determination.

**R.G. Lipsey** was awarded the Queen's University Prize for excellence in research for 1980. The details are reported elsewhere in the newsletter. He is continuing his work with B. Curtis Eaton on space, value and capital. Last year, they published two papers in this area: 'The Block Metric and the Law of Markets' in the *Journal of Urban Economics* and 'Exit Barriers are Entry Barriers: The Durability of Capital as a Barrier to Entry' in the *Bell Journal of Economics*. Two further papers in this area are forthcoming. 'Capital, Commitment and Entry Equilibrium' in the *Bell Journal of Economics* and 'An Economic Theory of Central Places' in the *Economic Journal*. In addition Lipsey's paper on 'Supply-Side Economics: A Survey' will be published by the Ontario Economic Council. Frank Flatters and Lipsey have written an article on the Constitutional Implications of the Canadian Common Market, commissioned by the Business Council on National Issues. Lipsey completed a term as President of the Canadian Economics Association in May 1981. His presidential address 'The Understanding and Control of Inflation: Is There a Crisis in Macro

Economics?' will be published in the November issue of the *Canadian Journal of Economics*. An excerpt is included in this newsletter.

**Martin Prachowny** spent the year 1980/81 on an SSHRCC leave fellowship as a visiting scholar at MIT. His monograph, 'The Effects of Wage Indexation on the Macroeconomic Performance of a Small Open Economy' has been issued as a Discussion Paper by Labour Canada. His paper, 'Wage Indexation, Social Benefits and Private Incentives' appeared in the *Journal of Labour Research*, Spring 1981. The *Journal of Macro Economics* will publish his paper, 'Aggregate Supply Management in a Small Open Economy' in the summer 1981 issue and 'Sectoral Conflict over Stabilization Policies in Small Open Economies' is forthcoming in the September 1981 issue of the *Economic Journal*. He is continuing his research in macroeconomic analysis for small open economies. He is the current Chairman of Undergraduate Studies.

**Nancy Olewiler** prepared a monograph, *Mineral Economics* with P. Berck, for the US Forest Service in 1980. Her paper 'The Regulation of Natural Resources in Canada: Theory and Practice' was released as Technical Report No. 4 by the Economic Council of Canada early in 1981. Another paper for the Economic Council's Newfoundland Reference, 'Job Creation Prospects in the Newfoundland Mining Industry', with C. Pye, was issued as Discussion Paper 179. She delivered a paper, 'Destructive Competition and the Extraction of Depletable Natural Resources: The Role of Capacity Constraints' to the Annual Meetings of the CEA in Montreal in June 1980. Next year she will be on leave at UBC where she will be working on models of non-renewable resource markets and on the effect of property rights on mineral exploration.

**Slobodan Djajic's** paper 'Monetary and Commercial Policy in a Two Country Flexible Exchange Rate Model

with Perfect Foresight and Capital Mobility' has been issued as Institute for Economic Research Discussion paper 394. He is currently working on the topics of trade in exhaustible resources, growth and the distribution of income, and on the terms of trade and employment in an open economy.

**David Smith**, as reported elsewhere, returned to full-time teaching and research in July 1981. He was the editor of *Economic Policy Advising in Canada, Essays in Honour of John Deutsch* as well as the author of the Volume's first chapter, 'The Nature and Channels of Economic Policy Advice: An Introduction'. His other publications were 'Trade Union Growth and Industrial Disputes' in R.E. Caves and L.B. Krause (eds.) *Britain's Economic Performance* and a book on economic concepts, entitled *Economic Reasoning* which was written jointly with H.E. English and published by the Canadian Foundation for Economic Education. He was appointed Deputy Chairman, as well as chairman of the Research Policy Committee, of the Ontario Economic Council. In the first half of 1982 he will be on leave at Harvard on a Social Sciences and Humanities Research Council Leave Fellowship.

**Marvin McInnis's** paper, 'Some Pitfalls in the 1851-52 Census of Agriculture in Lower Canada' appeared in the Spring 1981 issue of *Histoire Sociale. Canadian Papers in Rural History* published his paper 'A Reconsideration of the State of Agriculture in Lower Canada in the First Half of the Nineteenth Century' in the Winter 1981 issue. His paper 'The Fertility Transition in Europe and America' appeared in *Family Building and Family Planning in Pre-Industrial Societies*, edited by John Rogers, Uppsala. He read his paper 'A Functional View of Canadian Immigration' at the annual meeting of the Population Association of America in Denver. He is currently doing research on regional variations in farm output.

**Rod Fraser** has been Associate Dean in the Faculty of Arts and Science since 1979. He is a member of the Advisory Council on Occupational Health and Occupational Safety of the Ministry of Labour, Ontario and Chairman of its Task Force on Research Priorities. He is also a member of the Task Force on High Technology Requirements for the Health Sector in Ontario of the Ontario Council of Health. His recent papers include 'Towards the Establishment of Priorities for Research and Action in the field of Occupational Health and Safety,' 'Physician Incomes in Canada: A Brief Submitted to the Hall Review of the Canadian Health Care Plans', and 'A Review of the Hall Report, 1980', to be published by the Ontario Economic Council.

**Scott Gordon**, who holds a joint appointment at Queen's and at Indiana University, has been awarded Indiana University's highest honour - a distinguished professorship. Gordon was cited as an economist 'who combines in a rare way versatility and depth of theoretical knowledge, profound understanding of the roots and development of his discipline and a clear sense of the important issues of the day'. His book, *Welfare, Justice and Freedom*, has been published by Columbia University Press. He has also written a review article of Hayek's 'Law, Legislation and Liberty' which is forthcoming in the *Canadian Journal of Economics*.

A paper by **Frank Lewis**, 'Farm Settlement of the Canadian Prairies: 1898-1911' will appear in the September 1981, *Journal of Economic History*. On his sabbatical leave next year he will be working on the impact of the fertility decline on savings rates in the United States: 1830-1900. He is currently engaged in research on the 'agricultural crisis' in Lower Canada in 1851 and on the relationship between savings and fertility (See IER Discussion Paper #393).

Papers by **Doug Purvis** will appear in two new books; 'Oil Disinflation and

Export Competitiveness', with William Buitert in J. Bhandari and B. Putman (editors), in *The International Transmission of Economic Disturbances; Under Flexible Exchange Rates* (MIT Press). 'The Debate on Monetarism: An Overview of Some Recent Developments,' presented to the Annual conference on SRCC Money Study Group, Oxford is forthcoming in A. Courakis and R. Harrison (editors) *Monetarism: Traditions Debates and Policy*: (MacMillan). He is currently finishing work on the 4th Canadian Edition of *Economics*, the textbook with R.G. Lipsey, G.R. Sparks and P.O. Steiner. A paper co-authored with Richard Harris 'Diverse Information and Market Efficiency in a Monetary Model of the Exchange Rate' is to appear in the December 1981 issue of the *Economic Journal*. He is also working on models of the Dutch Disease, as well as on government and the economy.

**Richard Harris** returned in the fall of 1980 from a post as Ford Visiting Research Professor at the University of California, Berkeley. He will be on leave in 1981-82 at the University of British Columbia, where he will do a first-hand study of recreation opportunities on the west coast. His paper 'Non Convexities in Investment Theory', a joint paper with Russell Davidson, appeared in the *Review of Economic Studies*. Three other papers are forthcoming in 1981: 'Diverse Information and Market Efficiency in a Monetary Model of the Exchange Rate', a joint paper with Douglas Purvis, in the *Economic Journal*, 'Investment Decisions with Economies of Scale and Learning' a joint paper with R. Gilbert in the *American Economic Review* and 'Price and Entry Regulation with Large Fixed Costs' in the *Quarterly Journal of Economics*. He is currently working on persistence effects and rational expectations with Douglas Purvis, on cost benefit analysis with Neil Bruce, on investment in non-competitive industries with R. Gilbert, and on how to lose money in real estate. (Editor's Note: Harris has acquired considerable practical experience in the Kingston housing market).

**M.C. Urquhart's** inaugural address at the University of Edinburgh, *Canada's Economic Malaise: A Historical Perspective*. November 1979, was published by the University of Edinburgh, 1980. *Current Canadian Economic Problems: Some Lessons of History*, a Foundation Lecture for the Foundation of Canadian Studies in the United Kingdom, given by Urquhart, at Canada House, London, December 1979, was published by Canada House 1980. His paper 'Natural Resources in the Canadian Economy', given at a conference of the British Association of Canadian Studies in Birmingham, England, April 1980, was published in *Bulletin of Canadian Studies* (published by the British Association of Canadian Studies), October 1980. His paper 'International Capital Flows: The Canadian Experience.', presented at a Conference on Problems of Long Term Capital Movements: Canada and the UK May 1980 at the University of Edinburgh is to be published by the University in the proceedings of the Symposium.

# Clifford Austin Curtis (1899 - 1981)

The death of Clifford Austin Curtis, earlier this year, ended the life of one who had contributed much to Queen's University. A university can flourish only if it has a succession of professors of great stature and vision, professors who become identified with their institution and, in turn, it with them. Clifford Curtis was such a figure. Although his other interests, especially his active participation in public affairs, were broad, the University was and remained the primary object of his devotion. His belief in the importance of discipline in thought and his practice of it characterized his approach to teaching and other scholarly activities and, as well, his actions in broader University affairs.

Dr Curtis's connection with academia was lifelong. Born just within the last century in November 1899, he received all of his schooling in Smith's Falls, took an honours BA from the University of Toronto in 1922 and a PhD from the University of Chicago in 1926. After teaching briefly in Iowa and for a year in the University of Florida, he joined the academic staff at Queen's University in 1927 to complete that illustrious triumvirate of himself, W.A. Mackintosh and F.A. Knox, who comprised the economics section of Queen's University with great distinction for nearly the next 20 years and were major players in it for 20 years more.

Dr Curtis's contributions to the University were many faceted. There were first, his professional activities. In the great tradition of Queen's, his publications in economics, some fifty of them, reflected his belief in the importance of applying his discipline to the problems of the time. Thus, in turn, as new issues arose, he wrote on Canadian banking and a central bank in Canada, on competition and combines policy, on housing, and on municipal finance. His scholarly influence extended further through his participation on Royal Commissions or Committees of Inquiry as a member of their staffs or, in later years, as a chief Commissioner. And for forty years his insistence, in his teaching, on rigorous thought contributed to the education of generations of students, who have made their marks in high places in all walks of life.

Secondly, there were his non-academic contributions to his department which, in nearly all of his time, comprised economics, political science and commerce. As its Acting Head, from the autumn of 1943 to the autumn of 1946, he had to cope with the many difficult problems of the wartime and the early post-war years. In addition, he was instrumental, at that time, in establishing the still flourishing Institute of Local Government. As Head of the Department from 1956 to 1964 he was responsible for the Department developing its modern programme of graduate studies, a programme which provided a full-fledged range of graduate work. At the same time, he and Professor R.G.H. Smalls were largely responsible for the planning of Dunning Hall, the first permanent home of Economics, Politics and Commerce specifically designed for academic purposes.

Thirdly, Dr Curtis's contributions were not limited to the Department of Political and Economic Science. He was a member of the senate on three occasions, from 1944 to 1946, from 1956 to 1959, and from 1964 to 1968; senate members recall the incisiveness of his mind. More importantly, at an age when most people are looking to the green pastures of retirement, he agreed to become Dean of the relatively new School of Graduate Studies, a post he held for the four important years from 1964 to 1968 during which time the total enrolment of all those registered in the School grew from 460 to 950 students. On his retirement from the School the greatly expanded programme of graduate studies at the University had become firmly established.

But the end to his labours for the University had not come yet. In 1970 when, after many months of planning in which he played some part, the Canadian Institute of Guided Ground Transport was established at Queen's, from shortly after its beginning he was successively its interim Executive Director for 7 months, Chairman of its Council for another year and a member of the Council until May 1980.

We can only mention his broader interests and outstanding contributions beyond the University, as city councillor and Mayor of the City of Kingston,

as an active and influential participant in politics as a member of the Liberal Party, as company director, especially of the CNR, as member and chairman of a hospital board and for 16 months in 1954 - 55 as advisor to the Government of Pakistan on its development programmes. They reflected his readiness to apply his training and his talents to general matters of public concern.

Among his personal qualities, the combination of a first rate mind and a shrewd judgment made his opinions highly valued and widely sought. The tangible evidence of this quality provided by the many positions of trust he held tell only part of the story. Beyond them, with great frequency, his friends and associates turned to him informally on every manner of thing for the advice they had learned so much to respect.

Although unassuming and quiet in manner, Dr Curtis had a warmth of personality, enhanced by a dry sense of humour, that led to lasting friendships. His students retain kindly and appreciative memories of his teaching and of his personal helpfulness to them. His associates remember him as a fine colleague.

A group of former colleagues of Dr Curtis in the Department of Economics are establishing an award in Dr Curtis's name for achievement in graduate work in economics at Queen's and are currently raising funds to support it.

*M.C. Urquhart*

# Recent Conferences and Workshops

## John Deutsch Round-Tables on Economic Policy

The first of the John Deutsch Round-tables on Economic Policy was held at the Donald Gordon Centre, Queen's University from 31 October to 3 November 1980. These round-tables honour in name a distinguished Canadian economist who was intimately involved in debates on policy issues from the 1930's to the mid-1970's. John Deutsch entered these debates from an extraordinarily diverse series of perspectives. Early in his career he worked at the Bank of Canada, later he became Assistant Deputy Minister of Finance, then Secretary of the Treasury Board of Canada, and in 1963 was appointed the first Chairman of the Economic Council of Canada. He held academic appointments at the University of British Columbia and Queen's University and was Principal of Queen's from 1968 to 1974. He served on many of the leading commissions of his time, including, to name only some of them, the Rowell-Sirois Commission in the late 1930's, the Royal Commission on Newfoundland Finances (1957), the Special Commission of Inquiry into the Unemployment Insurance Act (1961), the Royal Commission on Higher Education in New Brunswick (1961), the study of Maritime Union (1968), the Commission on Post-Secondary Education in Ontario (1969), an advisory committee on energy for Ontario (1971), and a United Nations commission on the effects of multi-national corporations (1973).

A forum that brings together the research and viewpoints of academic and non-academic economists is most appropriate to his memory, as is the term 'round-table'. John Deutsch strongly believed that a much wider consensus existed on a policy issue than pronouncements by leading spokesmen on the issue might imply, because there are pressures - whether in public office or in an academic appointment - to differentiate one's position from that of others. It followed that, in order to advance collective understanding of an issue, greater efforts should be made to bring together people who have thought

seriously about the issue and to foster discussion in an atmosphere that minimizes the incentive to battle from entrenched positions.

The purpose of the round-tables is to promote analysis and discussion of economic policy issues of significant national concern to Canada by professional economists in business, government and universities, and to facilitate the dissemination of this analysis to policy makers. The round-tables are intended, not only to encourage academic economists to work on difficult policy topics, but also to provide a forum to facilitate interaction among government, business and academic economists. Initially three round-tables have been planned, and they are a sequel to two successful experimental sessions held at Queen's University in the spring of 1978 and 1979 which were reported in the last issue of the Newsletter.

The sponsorship and organization of the initial set of John Deutsch Round-Tables are a joint venture of the Institute of Research on Public Policy in Ottawa and the John Deutsch Memorial for the Study of Economic Policy at Queen's University. John Deutsch was involved in the establishment and early development of the former. The latter was established at the time of his death in 1976. Douglas Purvis (Queen's University) has been in charge of the organization and editing of the results. The Institute for Research on Public Policy contributed the valuable assistance of Frances Chambers, John Curtis and David Dodge.

The first Roundtable focussed on the Canadian Balance of Payments, with sessions on the Dynamics of Monetary Base Control, on Competitiveness and the Current Account: Structural Factors, on Long Term Capital Flows and Foreign Investment, on the Exchange Rate and Short-Term Capital Flows, and on the Monetary Approach to Exchange Rates and the Balance of Payments. A wrap-up session closed the conference.

The proceedings of the Round-table are available from the Institute for Research in Public Policy, Ottawa.

## Public Finance Workshop

A workshop in Public Finance is being held at Queen's University from 31 August to 4 September. The purpose is two-fold. First, it allows Canadian academics interested in public finance to discuss problems of mutual concern. Second, it provides the opportunity to survey current research areas in public finance. The conference is organized by Jack Mintz and Robin Boadway, with financial support from the John Deutsch Memorial Fund, the Canadian Tax Foundation and the Social Sciences and Humanities Research Council. It covers topics in the areas of social and public insurance, taxation of incomes from capital, fiscal federalism, income redistribution policies and positive theories of government, among others. Papers are being presented by Agnar Sandmo, (Norwegian School of Economics and Business Administration), K. Munk (Artruis University and CORE), E. Diewart (University of British Columbia), R. Gordon (Bell Laboratories, New Jersey), Alan Auerbach (Harvard University), T. Stiglitz (Princeton University), A.F. Shorrocks (London School of Economics and Queen's University), and Jonathan Kesselman (University of British Columbia) as well as other participants from Canada and the United States.



# Awards for Faculty and Students

## Queen's University Prizes for Excellence in Research

Richard G. Lipsey was one of two recipients of the 1980 Queen's University Prizes for Excellence in Research. These awards, valued at \$1,000 and accompanied by commemorative scrolls, are the first to be awarded and will be given annually for outstanding contributions to research in any discipline. The news release by the University read, in part, 'Dr Lipsey, the Sir Edward Peacock Professor of Economics, is an internationally known economist who has made major advances in customs union theory and welfare economics, in monetary economics, and in macro-economic dynamics and the analysis of inflation and unemployment. He also has contributed importantly in the past five years in the field of competition in space. The work of this outstanding scholar has influenced and inspired students and colleagues, over the years, at Queen's University and elsewhere.'

As part of the ceremonies of the award, Dr Lipsey gave a public lecture. He began by saying, 'This public lecture is the price I pay for receiving the first Queen's Prize for Excellence in Research and it was decided that I should refer to my major research interest over the last several years. During that time I have relegated my work in macro economics, inflation, unemployment etc. to no more than a quarter of my research time and have returned to the first love of my life, microeconomics, to work, in conjunction with Professor B. Curtis Eaton of the University of British Columbia, on some problems of value theory. We have been working on this subject for nearly ten years and are currently engaged in drafting a research monograph in which we hope to pull all of our work together. In the meantime, some dozen or so articles are either published or in the last stages of preparation.'

He went on to describe how the research developed and its significance as they see it.

## Edith Whyte Memorial Fund

A memorial fund has been set up at Queen's in the name of Edith M. Whyte, BA 1948. The income from the fund will be used to support one or more students in Economics.

Edith Whyte was the highest ranking woman official in the Bank of Canada at the time of her death in October 1980. She was Associate Advisor, part of the Bank's Policy making body and an advisor to the Governor of the Bank.

As George Pike (Artsci '61) wrote in the Queen's Review: 'Although Edith was only 53 when she died, she left a record of accomplishment worthy of several lifetimes. Her remarkable career at the Bank of Canada and her volunteer work for the Victorian Order of Nurses and for Queen's University (where she was a Councillor) were only some of the more visible forms of her public service. In private life she profoundly influenced the lives of many young people by encouraging them to set their sights higher and to succeed. She was a witty conversationalist and a sensitive listener who enjoyed literally hundreds of friends in Canada and abroad.'

The Economics Department is very grateful for the support that the Edith M. Whyte Memorial Fund has extended to students in Economics.

## W. Earle McLaughlin Fellowships

The Royal Bank of Canada has established two post-graduate fellowships valued at \$10,000 each in honour of W. Earle McLaughlin, chairman of the bank's board until 1 October 1980.

Mr McLaughlin won the Queen's University medal in economics when he graduated in 1936 with a BA. He immediately joined the Royal Bank as a junior in a Toronto branch and in 1960 began an 18-year term as head of Canada's largest bank. He served for many years as a trustee of the Univer-

sity. In 1976, Mr McLaughlin received an honorary LLD from Queen's.

The fellowships will be known as the W. Earle McLaughlin Fellowships in Business and Economics. They will be offered annually beginning in 1981 to graduate students, normally at the PhD level, in business and economics for research in the fields of money, banking or finance.

'We are most pleased to make this contribution to study and research at Queen's University,' said Rowland C. Frazee, chairman-elect and chief executive officer of the Royal Bank. 'We felt it was fitting that Mr McLaughlin's 44-year career with the bank should be marked by these fellowships which, we hope, will stimulate significant research in business and economics.'

'These prestigious fellowships are an important addition to the awards program of Queen's and will contribute an exciting new aspect to our School of Business and the Department of Economics,' said Queen's Principal, Dr R. Watts, in accepting the fellowships from Mr Frazee.

## E.G. Bauman Fellowship

The E.G. Bauman Fellowship in Economics will be offered each year to doctoral students who show exceptional promise for making significant contributions to the study of economic theory and/or econometrics. The value of the Fellowship, which is set initially at \$5,000 per year, will be established at a level equivalent to the most meritorious awards offered to graduate students at Queen's University. The candidate for the award will be recommended by the Department of Economics to the Fellowship Committee of the School of Graduate Studies and Research.

The University and the Department of Economics value this support very highly and are very grateful for the generous assistance to a graduate student in economics.