

# A Message from the Chairman

Once again a characteristically busy year passed by. In addition to the usual diversity of activities in the Department, we have had our usual temporary turnover of personnel. We were fortunate to have had a particularly active group of visiting faculty this year whose presence stimulated many an after-hours debate on a variety of topics. Roger Latham, erstwhile of Liverpool but soon to take up permanent residency at York University in Toronto, spent a second year with us and taught Mathematical Economics. Paddy Geary was here for the year from University College, Dublin and improved the mean quality of the Departmental Joggers considerably. David Webb, a monetary economist from Bristol, was here for the year and will stay on for a second. The other full year teaching visitor was Dave Wildasin, a colleague of Scott Gordon's at Indiana, who filled in most ably as our resident urban economist. A number of visitors came only for one term including P.C.Thanh from George Washington University (Development Economics), George Freeman (sheep farmer, formerly Deputy Governor of the Bank of Canada), and Mahinder Chaudhry of RMC (Development Economics). We were also honoured to have some purely research visitors for extended periods. Tom Courchene, the well-known policy guru from Western Ontario, spent his sabbatical leave at Queen's this year and continued his work on federalism, monetary policy, energy, etc. He was called upon to take part in a good many conferences and to participate in a debate on energy policy with our Mackintosh Lecturer, John Helliwell. Also, Allan Gregory, one of our illustrious Ph.D.s, now teaching at Western Ontario, spent a term with us while on an SSHRCC Post-Doctoral Fellowship.

On the debit side, Richard Arnott, Dick Lipsey and David Smith were all on sabbatical leaves for all or part of the year, but, fortunately for us, spent a great deal of it at Queen's. Gordon Sparks was away for the year visiting MIT, Wellesley and Tufts, while Bentley MacLeod spent the winter and spring terms at the University of Louvain in Belgium. Luckily, things were more stable among the staff. We did not lose any staff this year and we gained one new secretary, Charlotte David, and one new photocopy assistant, Kim Sullivan.

Our experiment with decentralizing the visiting speakers program into Micro,

Macro and Quantitative components was a great success. Some of the visitors this year included Elhanan Helpman (Harvard/Tel Aviv), Ron Findlay (Columbia), Peter Buckholtz (RMC), Eric Maskin (MIT), Glenn MacDonald (Western), Larry Epstein (Toronto), John Sutton (LSE), Jacques Thisse (CORE), Y.Y.Papageorgian (McMaster), Henry Tulkens (CORE), Vince Crawford (San Diego), Richard Gilbert (Berkeley), P.Neary (University College), Terry Marsh (MIT), Jennifer Reinganum (Cal Tech), Guillermo Calvo (Columbia) David Hsieh (Chicago), Olivier Blanchard (Harvard), Thomas Glaesner (Federal Reserve Washington), Zvi Eckstein (Yale), Robert F.Owen (Wisconsin-Madison), Richard Caves (Harvard), Richard Thaler (Cornell) Mashem Pesaren (Cambridge and Harvard), Andras Koves (Institute of Economic and Market Research, Budapest), Gregory Chow (Princeton), Maurice Obstfeld (Columbia), Robert King (Rochester), Martin Eichenbaum (Carnegie-Mellon), Roger Farmer (Toronto), Robert Pollack (Pennsylvania), Beth Allan (Pennsylvania), Lars Svensson (Stockholm), Graciela Chichilnisky (Columbia), Curtis Eaton (Toronto), Douglass North (Seattle), Alan Feldman (Brown), Robert Driskill (U.C. Davis and Yale), Jonathan Hamilton (Tulane), Martin Hollis (East Anglia), and Edmund Phelps (Columbia).

In addition, as mentioned above, our Mackintosh Visitor for 1983 was John Helliwell of UBC, currently Chairman of the advisory panel to the Minister of Finance, Marc Lalonde. In addition to presenting the Mackintosh Lecture entitled "Stagflation and Productivity Decline in Canada 1974-1982", he gave a faculty seminar on the workings of the MACE model, and took part in a lively debate on Canadian energy pricing policy. Those interested in the contents of his formal lecture may find it reproduced as a Queen's Discussion Paper No. 521 (available on request).

As mentioned elsewhere in this Newsletter, another major research initiative came from the activities of the John Deutsch Memorial fund, capably run by David Smith.

Another boost to research came from additional Edith Whyte awards. As reported last year, two series of awards were established in memory of Edith Whyte, a graduate of Queen's. These

awards went to the best students in each section of undergraduate macroeconomics and to the best student entering fourth year. Early this fall, we were informed that the fund had increased dramatically. The department has decided to use these additional monies to capitalize a fund for a set of research grant awards for graduate Ph.D. or post-doctoral research. We are very grateful for these badly needed additional funds.

The following pages give a detailed description of the main activities of members of the department. At the risk of being redundant I would like to highlight a few of the outstanding achievements which deserve special recognition. Mac Urquhart has been awarded the very prestigious Innis-Gerin medal for a distinguished and sustaining contribution to Social Science literature. For those of us associated with Mac and familiar with his contribution to economics history and historical statistics in Canada, as well as to the Queen's Economics Department itself, this will be recognized as a well-deserved honour. Dan Usher was duly elected to the Royal Society of Canada as a result of his wide-ranging contributions to the discipline at large. Doug Purvis and Dick Lipsey were awarded the prize in the nonprofessional journalist category of the National Business Writing Awards. In addition, Dick was presented with an honorary degree from McMaster and was the Woodward Lecturer at UBC Doug was appointed to the Economic Advisory Panel by the Minister of Finance, Marc Lalonde. Jim Brander received the Harry Johnson Memorial Prize for the best article in the *Canadian Journal of Economics* for volume XIV, 1981 (a year in which 10 articles by Queen's authors appeared!). David Smith was appointed as economics research director for the MacDonald Royal Commission on Canada's Economic Prospects and the State of the Economic Union. Don Wood became the first Director of the new School of Industrial Relations. And, Lorne Carmichael was awarded a Research Fellowship to attend the Hoover Institution at Stanford University. All these people, and more, contributed to what has been a most successful year in the QED.

Robin W. Boadway

# The Federal Deficit: Is All the Red Ink a Red Herring?

This was the topic of debate at the Macroeconomics Workshop on Wednesday 10th November 1982. The panelists consisted of four regular Queen's faculty; Neil Bruce, Richard Lipsey, Douglas Purvis and Richard Harris; Tom Courchene from the University of Western Ontario; and George Freeman, former Deputy Governor of the Bank of Canada. The latter two were visiting Queen's for the 1982-83 academic year. The first three were (supposed) to argue in the affirmative; the last three in the negative.

Doug Purvis opened the discussion by saying that, of those at an earlier meeting to determine the format of the debate, he was obviously the most reasonable among the discussants, and was therefore appointing himself moderator. However, he would not be an impartial one. He announced that the order of speakers was as follows: he would make brief introductory remarks followed by Dick Lipsey, Tom Courchene and Rick Harris (thus, he said, showing that any Tom, Dick or Harris was capable of taking part). Then, would follow Neil Bruce and George Freeman.

Purvis introduced the topic by saying that the conversion of the Wall St. Press to supply-side economics had raised the question of the importance of the accumulated deficit and its impact. In particular it has raised the question of whether the deficit has been caused by the current high levels of inflation and unemployment or whether the causality runs the other way.

Richard Lipsey began by pointing out that Canada was currently in the biggest recession since the 1930's. It was his intention to discuss the contribution of inflation to the national debt. He gave a simple numerical example to show that inflation will not have a neutral effect on debt repayments, but will change the real flow of payments. An equivalent increase in the rate of inflation and the nominal rate of interest will give higher real repayments in the early years, and the only way to equalize the real flow was to index the principal. However, since this has not been done, the only alternative would be to borrow further in the early years so that net repay-

ments occur as if the principal was indexed. Clearly lenders would have no objection to this (he noted however, that it might be impossible to get this solution exactly when nominal interest is taxed). Thus the principal under the present inflation is overstated when we allow for this correction. Doug Purvis commented that if the expected inflation rate is a constant seven and one half percent then roughly one third of the deficit is currently inflation premium, and this fraction is higher for higher expected rates of inflation.

Tom Courchene opened by saying that real debt in the hands of the public over the last decade has risen 78% whilst real income has risen by only 39%, and that currently the ratio of debt to federal tax revenue is 44%. He claimed that it is important to argue that the current state of affairs is bad because if the government believes that there is no deficit then they will go ahead and create one. He pointed out that the cyclically adjusted government budget should be in surplus, not deficit, to defuse the current inflation. Lipsey's correction is valid, he agreed, but it is not the perception of people in the real world. He listed five perceptions that people had. First, that we still have to finance a deficit of \$23 billion and the fear is that it will be money financed and will thus cause future inflation. Secondly, the perception is that the deficit is evidence of government ineptitude and the fear is that taxes will be raised, not expenditure lowered. Thirdly, the borrowing is not balanced by any stream of income, as argued recently in a statement by the Governor of the Bank of Canada. Fourthly, it is perceived that the government will crowd out private investment. Finally, the pro-deficit argument is that deficits will not by themselves cause high interest rates because if Canada is a small open economy, the government can borrow at the world interest rate. But he argues, recently, Canada's credit rating has been listed by U.S. economist Lester Thurow as questionable, and if word gets around, such borrowing at the world rate may not be feasible.

Rick Harris stated that business and finance people are saying very different things from academic economists. Given

that we are in a recession there are two questions to be answered: i) if you want to increase government expenditures should it be tax financed or deficit financed?; ii) if government expenditures are kept constant should we increase taxation to reduce the deficit? The conventional (academic) answers are as follows: i) government debt (bonds) is perceived by the public as wealth, so for maximum expansion expenditure should be deficit financed; the conventional answer to ii) is NO. However, he argued, fiscal conservatives had been focussing on three "facts": i) the marginal propensity to consume among the currently employed is zero; ii) the investment function is shifting inwards faster than we've ever seen it before, aided by increased bankruptcies from the cash constraint imposed by high *nominal* interest rates and iii) the stock of nominal public debt is very high at the same time that the interest rate is very high. He then argued that, given these facts both the deficit financed and balanced budget multipliers are unity, so there should be no Keynesian case for choosing between them; fact ii) implies that the multipliers will be even less; and the combination of large debt repayments and the government cash shortage even for small increases in the rate of interest means that fiscal policy won't work. He classified this as the extreme Wall St. View.

Neil Bruce stated that he was going to answer the question of why the deficit doesn't matter. The question is, suppose the government extracts a certain amount of resources, how should it be financed? The government gets its ability to borrow from the fact they can finance it. He then stated two equivalence theorems: i) the Ricardian theorem in which borrowing is equivalent to future taxation – if so the deficit doesn't matter; ii) the Sargeant (later identified by Dave Backus as the Wallace) theorem that borrowing is equivalent to future money creation, so that there's no difference between the deficit and printing money. He pointed out that i) should not be dismissed, as presently in Canada government dissaving (creating deficits) has been matched by private saving as this rate is currently very high. Even if this is not the case, it is less

costly than causing a larger depression.

George Freeman's concern was that the deficit was the symptom of a deeper problem. The fact that the deficit can be expanded indefinitely seems silly. He asked whether we can live with another 100% expansion of government debt. What we have witnessed since Keynes, he argued, has been a steady increase in the rate of inflation, an explosion of government spending and intervention and growth in the deficit. The real concern is the implication for the allocation of resources of the government presence. If we had the same growth in government spending but financed by taxes would we not be better off? The consequence of the Keynesian revolution, he argued, was that it gave persuasive reasons for why budgets don't have to be balanced; thus it is very easy to create a deficit if there's no constraint, because it allows politicians to do good for some people without hurting others. Indeed inflation and the progressive tax system gave politicians more money than they anticipated, so they were able to spend more. The idea was that the government should run surpluses during certain years so that the net result is zero; but politicians keep insisting that the time to run the surplus has not yet come. He asked the opposing members of the panel, to tell him, if not now, when do we turn back?

Doug Purvis then briefly summarized under four headings what he thought the issues were. The first was the measurement issue: if the deficit is inflation adjusted it is no worse than other years of high inflation and recession. However, the crowding out effect was still there since we are still talking about the effect of one extra bond. Second, the deficit may be a problem since with tax distortions and capital market imperfections, the world is not neutral with respect to inflation; in addition we have the "rational expectations problem" that deficits are a problem if they are perceived to be (by Wall St.). Third, there is no consensus on the causality problem with Lipsey and Bruce arguing that we must get rid of the deficit first. Fourth was the Political Economy issue. The argument that the government was inherently profligate and must be reined in, was a dangerous red

herring and has nothing to do with the current high deficit, since this argument should have been true five years ago if that was the case. It was important he added, to distinguish the size of government in its structural role from that of its stabilization role.

The debate was turned over to comments from the floor. James MacKinnon stated that if the rate of inflation were reduced the real deficit would be higher during the transition, and thus the question was the composition of debt. Courchene answered that three quarters was in Canada Savings Bonds, a figure reduced to one third when pounced upon by Dave Backus who had with him the Bank of Canada Review. Russell Davidson commented that it was his conception that the current recession was induced by the fight against inflation and asked who perceives inflation to be so bad that they want others to bear the full burden through unemployment? Jim Brander added that the cost of the recession fell upon a few. Jack Mintz questioned Harris' interpretation of interest rates pointing out that higher real rates in the late 1970's were associated with low investment in contrast to the late 1960's. Frank Atkins (a graduate student) pointed out that real government spending had grown little if at all in the last five years, directing his remark to Freeman, who responded that these figures were probably fudged and did not include the programs that had been handed over to the Provinces.

The speakers were then given a chance to respond, to make policy statements. Lipsey said that the Political Economy aspects were important but he was annoyed with Purvis for giving away a central point for their side. He strongly disagrees with the "rational expectations" idea that people look at Wall St.; people who have looked at Wall St.'s view during the depression would have said that it was absurd. We have shrinking investment, he claimed, because aggregate demand is less than present productive capacity, and firms look at this and the interest rate, and not at government deficits, to determine investment. He opposed a reduction in the deficit given current monetary policy and advocated easing up on the money supply. Bruce

said we should pursue monetary gradualism and lean on the oars with fiscal policy during recession, so as not to disturb monetary policy. Courchene advocated that we not change fiscal policy, and said that he had no stance on what the appropriate current monetary policy would be. Harris pushed for a loose monetary policy and tight fiscal policy. Freeman said that when we recover from the current recession we should concentrate on the deficit.

As a final comment, Ross Milbourne noted that Rick Harris's argument could be turned exactly on its head using his "facts". If the marginal propensity to consume of the employed was zero, it followed that we could put a per capita tax on all employed persons to retire the debt, and there would be no effect upon consumption, so that aggregate expenditure, and hence income and output would be exactly the same regardless of whether we had a debt or not. Consequently Harris was arguing that it made no difference whether there was or was not a debt; it was irrelevant and therefore a red herring - he should therefore have been arguing on the other side.

Time having elapsed, many of the participants adjourned for liquid refreshments to the Graduate Club where the arguments became progressively more outrageous.

# How to Get to the Top

Robin Boadway's meteoric career is recreated in song and story in the QED Faculty Christmas Skit, 1982.

## Part I

'A QED Christmas Carol' follows Robin 'Ebenezer' Boadway through Christmas Past, Present and Future. The Ghost of Christmas Present shows 'the utter misery in the world today, much of it caused by Ebenezer', whose monetarist policies in the QED have terrorized faculty and graduate students alike. Impoverished graduate students are unable to afford the brain transplants they need to finish the Ph.D.

The excerpt below is from Christmas Past – the young Ebenezer Boadway (R.B.) relives his Ph.D. oral at Queen's.

*Examiners D.U., D.C.S., S.K.*

D.U.

To begin, Mr.Boadway. Using that clock on the wall, and assuming a one-to-one correspondence between analog and digital clocks, what would you infer from the given information set about the current time of day.

R.B.

Uh, I think its presently,... let's see, ... big hand between 7 and 8, little hand past the 9,... Why, its 9:38.

D.U.

A supplementary question. Is that a.m. or p.m.?

R.B.

Why, there's not enough information to tell.

EXAMINERS

(murmuring approval):

Yes...Splendid...an auspicious beginning.

D.C.

Mr.Boadway, would you state whether the following statement is true or false, and gives a concise analytical explanation of your answer: Regardless of the cost conditions under which it operates a profit-maximizing monopolist will never choose to operate on the price inelastic portion of its demand curve.

R.B.

This is false. Coventry City has never won the F.A. Cup.

S.K.

I'm beginning to have my doubts about the mental competence of the candidate. What is it, Mr.Boadway? Does beer make you smart?

R.B.

I don't know, sir, but it made Budweiser.

THE EXAMINERS RECOIL IN HORROR AND DISGUST.

S.K.

In periods of high inflation, what would be components of a union leader's optimal bargaining strategy?

R.B.

For one thing, a Cost-of-Living-Adjustment.

S.K.

And why a COLA?

R.B.

Because things go better with COLA; its the clause that refreshes.

D.U.

I've heard enough.

S.K.

Me too.

D.C.

Yes, Mr.Boadway, that will be all. Ordinarily, we would not be inclined to pass a candidate after a disgusting performance such as the one you have given us. But, since it is Christmas day, and since we are favorably disposed towards turkeys on this occasion, we have decided to let you slip through.

In the last act, the Ghost of Christmas Future reveals the bleak situation in the QED twenty years from now, when all the faculty have left, the QED has slipped off the bottom of the Scale of Economics Department Rankings, and only one lone graduate application has been received (from a runner up for Miss Ottawa Roughrider, 1999). The following conversation between Alison Moremoney and

Polkadot MacKenzie shows the results of Ebenezer's pinch penny policies (which earned him a medal from Bette Stephenson in 1985.)

POLKA DOT

Ah, remember the good old days, when Queen's was ranked Number One in Canada. What's our ranking now?

ALISON

The rankings don't go down that far. Somewhere between "Censored" and "Bleeped", I think.

POLKA DOT

I suppose with everyone leaving like they did, we couldn't expect to be ranked any higher. You'd think Ebenezer would have shown a little more tact, wouldn't you?

ALISON

Speaking of tact, remember when James MacKinnon quit to take over the Ontario Franchise for Dale Carnegie.

POLKA DOT

I hear he went bankrupt and became an IBM salesman.

ALISON

Remember that edict of Ebenezer's about everyone having to teach 8:30 classes? Russell Davidson resigned to sing in corn flake commercials.

POLKA DOT

And Richard Arnott quit to become a consultant on labour-management relations.

ALISON

Of course, none of that was as bad as putting Dan Usher on six university committees. (pause) What's Dan doing now do you know?

POLKA DOT

I'm not sure. After they fired him as director of the Public Service Alliance of Canada, I thought he went into advertising. Perhaps he's the one who came up with those beer commercials about the one beer to have when you're worried about the diminishing marginal utility of alcohol consumption. You know the ones with all those graphs.

ALISON

Ah, yes. Remember what happened to some of our other faculty members from 20 years ago. John Baldwin became President of Dome Petroleum. Of course, the job didn't last very long. And Klaus Stegemann took a chair in Berlin... but they arrested him for it.

POLKA DOT

Oh no!! I think I hear Ebenezer.

## Part II

A song celebrating Robin Boadway's rise to his present glorious position. Sung by the QED choir - Russell Davidson: choirmaster.

(Sing to: Gilbert & Sullivan - *Ruler of the Queen's Navy*)

When I was a lad I left my Father's knee  
To pursue a career in the military  
But we could not find a war to fight  
So I just played football with all my  
    might - refrain so he just...  
Playing Football was not for me  
So I came to Queen's and did a PhD

*Refrain:* Playing football was not for me  
So he came to Queen's and did a PhD

I wrote a thesis, looked for a job,  
Tried Western, Toronto, and UBC  
But the only job they'd offer me  
Was cleaning the toilets in their  
    lavatory - refrain  
Cleaning the toilets was not for me  
So I stayed and taught micro in the QED

I worked very hard and stayed up late  
Even taught my students to differentiate  
But the things that really impressed DC  
Were my demand and supply curves  
    drawn so very neatly - refrain  
I drew my curves so carefully  
That now I am the chairman of the QED

Now I have my own secretary  
She drives the others all so hard for me  
I crack the whip, with faculty  
Even tenured colleagues are afraid you  
    see (Chorus repeat)

I drive everyone so relentlessly  
To uphold the famous name of the QED

Now that I'm head of the QED  
I've attained great status in society  
Even deans and heads they all talk to me  
I am the very model of propriety

I work long hours so tirelessly  
Very happy as the head of the QED.

*Editor's Note* Most of the Graduate Students' skit, which took place in 1882, on the Frontier of Economics, did not escape the censor. Only the following fragments remain:

from the Top Ten Economist Tunes:

*Lets Get Fiscal*

*I've been Working on the Chain Rule*

# Recent Activities of Faculty

The Royal Society of Canada awarded its Innis-Gerin Medal for "a distinguished and sustained contribution to the literature of the social sciences" to **Mac Urquhart** at its annual meeting in May. He was the third economist among the ten recipients of the award since its establishment in the mid 1960's; interestingly, the first award was to W.A. Mackintosh, who as a former Principal of Queen's University and Head of the Department of Economics requires no further identification.

Mac Urquhart was chairman of the Steering Committee, which, under the aegis of the Social Science Federation of Canada, promoted and oversaw the production of the second edition of *Historical Statistics of Canada*, which was published in May; the volume is published by Statistics Canada which also provided most of the support for its production.

His work, in collaboration with others, on annual national income estimates from 1870 to 1926 is in its final stages. On the invitation of the Conference on Research in Income and Wealth of the National Bureau of Economic Research, a paper on these estimates is to be given at its meetings in March, 1984. A paper "Historical National Income Estimates and Economic History, Canada, 1870 to 1926" was given at an economic history seminar of graduate students and staff at the University of Toronto in December, 1982 and a lecture for undergraduates, entitled "New Historical National Income Estimates and the Making of Canada", was given at the time of the same visit.

The big 1982-83 deficit has been a real "make-work" project for **Neil Bruce**. Along with Doug Purvis, he has written two papers; "Fiscal Policy and Recovery from the Great Recession" appeared in *Canadian Public Policy* and "Some Unpleasant Keynesian Arithmetic: Putting the Budget Constraint in Counter-cyclical Fiscal Policy" was presented at the Ontario Economic Council Conference on the deficit held in March 1983. Neil and Doug have also collaborated on a chapter in the North Holland Handbook series *International Economics* edited by Ron Jones and Peter Kenen.

As a true "collaborateur", Neil Bruce has also published joint work with Robin Boadway and Jack Mintz: "Corporate Taxation and the Cost of Holding Inventories" appeared in the *Canadian Journal of Economics* in May 1982 and "On the Neutrality of Flow-of-Funds Corporate Taxation" appeared in *Economica* 1983. Neil and Robin have also written a textbook on welfare economics to be published by Basil Blackwell.

**John Hartwick** completed phase two of research on telecommunications pricing issues and practices for the Department of Communications, Ottawa (phase two with R.Rowley, McGill). Research results were reported at an international conference on telecommunications in Paris in June. He continued investigating wealth accumulation in uncertain environments (Schumpeterian models) with a view to shedding light on R & D and economic progress. P.Buckholtz (Royal Military College) and M.T.Wasan (Queen's, Mathematics) are collaborating. He worked on R & D races among competing innovators. For the Social Sciences and Humanities Research Council, he assisted in evaluating a program grant in natural resource economics in Vancouver, in February. For the Canadian Economics Association, he organized the France-Canada Roundtable on trade and industrial policy at Massey College, December 1, 2, 3, 1982. Two papers were published: "Differential Resource Rents and the Two Theories of Non-renewable Resource Valuation", in *Resources and Energy*, 4, 1982, and "Efficient Prizes in Prototype Development Contests", in *Economics Letters*, 10, 1982.

**Richard Arnott** had an active year. He was on sabbatical leave the second half of the year but could not bear the thought of leaving Kingston for long, so was in residence the whole year. He was peripatetic as usual, giving a dozen papers at conferences or seminars in Canada, the United States, France, Belgium, and Ireland. He is now on the editorial boards of four journals in the areas of urban economics and public finance, and is the urban and regional economic field editor for the *Fundamentals of Pure and*

*Applied Economics/Encyclopaedia of Economics*. He continues as Secretary-Treasurer of the Canadian Economics Association. On the research front, he published three papers, "The Structure of Multi-Period Employment Contracts with Incomplete Insurance Markets" in the *Canadian Journal of Economics*, and "The Supply of Housing" and "Optimal Tolls with High-Peak Travel Demand", both of which were co-authored with Ronald Grieson in *The Urban Economy and Housing*; a fourth, "Housing Quality, Maintenance, and Rehabilitation", is forthcoming in the *Review of Economic Studies*. His current research is on housing and moral hazard.

**Lorne Carmichael's** postdoctoral fellowship ended this year, much to his dismay, and he is now teaching a full load once again. He has three papers forthcoming in 1983, "The Agent-Agents Problem; Payment by Relative Output" in the inaugural issue of the *Journal of Labour Economics*, "Firm Specific Human Capital and Promotion Ladders", in the *Bell Journal*, and "Does Rising Productivity Explain Seniority Rules for Layoffs" in the *AER*. His research is now focussed on the role of reputation in the labour market, and its effects on the form and the efficiency of the institutions which evolve there. The research should help to define the appropriate role of government in regulating labour market institutions. Lorne will be on leave in 83/84 to take up a National Fellowship at the Hoover Institution at Stanford.

**Frank Lewis** has renewed his interest in the Family and particularly in the young. He is currently working on the demand for life insurance and his paper, "Fertility and Savings in the United States: 1830-1900", is forthcoming in the *Journal of Political Economy*. Lewis continues with his work on Prairie settlement. "Railway Construction on the Canadian Prairies" (co-authored with David Robinson) was presented to the Twelfth Conference on Quantitative Methods in Canadian Economic History, in Edmonton. He also participated in the writing of a public policy paper (co-authored with R.G.Harris and D.D.

Purvis), "Market Adjustment and Government Policy", which was presented to the second John Deutsch Roundtable on Economic Policy, at Queen's. Another of Lewis's interests is the relationship between historical estimates of investment in education and regional wage disparities in Canada.

**James Brander** and Barbara Spencer won the 1982 Harry Johnson prize, awarded annually to the authors of the paper judged to be the best appearing in the *Canadian Journal of Economics* during the preceding year, for their paper "Tariffs and the Extraction of Foreign Monopoly Rent Under Potential Entry". James Brander has continued working in the areas of industrial organization and international trade. Papers accepted for publication in the past year include "A Reciprocal Dumping of International Trade" (with Paul Krugman), forthcoming, *Journal of International Economics*; "Rent-Extracting Tariffs and Exhaustible Resources" (with Slobodan Djajic), *Canadian Journal of Economics* (May) "Strategic Commitment with R & D: The Symmetric Case" (with Barbara Spencer), forthcoming *Bell Journal of Economics* (Spring), and "International R & D Rivalry and Industrial Strategy" (with Barbara Spencer) forthcoming, *Review of Economic Studies*. Another paper with Barbara Spencer "Tariff Protection and Imperfect Competition" is forthcoming in *Monopolistic Competition and International Trade*, edited by Henryk Kierzkowski for the Oxford University Press. He also presented invited papers at a conference in Geneva sponsored by the Graduate Institute for International Studies and at NBER conferences in Boston, and was made a Faculty Research Fellow of the NBER.

In March, **David C. Smith** was appointed Director of Research (Economics) for the Royal Commission on the Economic Union and Development Prospects for Canada. He has been serving as Deputy Chairman of the Ontario Research Council and as a member of the Advisory Academic Panel of the Social Sciences and Humanities Research Coun-

cil. He continues as Director of the John Deutsch Memorial for the Study of Economic Policy. News of Memorial activities under his direction is reported elsewhere in this newsletter. Along with a paper, "The International Transmission of Economic Policy Ideas and the Control of Inflation" presented at Harvard seminar on research in North America he wrote a joint paper with T.J.Courchene, "Inflation Indexation and Capital Income: Whats Left of the White Paper" which was presented to the Annual Conference of the Canadian Tax Foundation and a paper on "Labour Market Imbalances in the 1980's" for a Conference on Canadian Labour Markets.

He is working on economic factors in the development of organized groups, especially labour unions, and on labour market imbalances in Canada.

**Martin Prachowny's** book *Macroeconomic Analysis for Small Open Economies* is to be published by Oxford University Press. In fact he seems about to become a chronic victim of a book-writing disease. Parts of the next project *Money in the Macro Economy*, have been circulating in the Department in plain brown wrappers. His paper "Expenditure Functions and Devaluation in an SOE Model: A Reply to Rothschild" appeared in *Weltwirtschaftliches Archiv*. He concluded his term as a member of the editorial board of the *Canadian Journal of Economics* in 1982 and he will be released from penal servitude as Chairman of Undergraduate Studies this fall (for good behaviour, of course).

**Dave Backus** has delivered papers at the Canadian Economic Association Meetings in Ottawa, at the Latin American Meetings of the Econometric Society in Mexico, at the Liverpool Workshop on Open Economy Macroeconomics, and at the European Meetings of the Econometric Society in Dublin. He is working on empirical models of the exchange rate, and the evidence they provide, as well as on variance decompositions in vector autoregressions. He and Doug Purvis will be looking at real causes and consequences of exchange rate changes. Together with Allan Gregory he has de-

veloped the BAG econometric model and is working out the bugs by offering to make book with other department members. He has had several takers.

**Ross Milbourne** has had five papers accepted for publication this year: "Analysis of Transient Behaviour of Certain Processes with Return to a Central State", with P.G.Buckholtz, L.L. Campbell and M.T.Wasan in the *Journal of Applied Probability*; "A Theoretical Derivation of the Functional Form of Short Run Money Holdings" (also with Buckholtz and Wasan) in the *Review of Economic Studies*; "Credit Flows and the Money Supply" in *Australian Economic Papers*; "Optimal Money Holding Under Uncertainty" in the *International Economic Review* and "Price Expectations and the Demand for Money: Resolution of a Paradox" in the *Review of Economics and Statistics*. He reviewed *Australian Monetary Economics* by K.Davis and M.Lewis for *Search*, the journal of the Australia and New Zealand Association for the Advancement of Science. He is working on a three asset stochastic model of money, optimal government-unemployed worker contracts, general equilibrium with credit cards, and the value of information on the Toronto Stock Exchange.

"Did the Ontario Settlers of the Canadian Prairies Really All Come From Bruce County?" You can find out in **Marvin McInnis'** paper of that title to be published in Proceedings of the Seventh Guelph Conference on Ontario Agricultural History. He approached the same topic in a paper with a less suspenseful title, "The Ontario Origins of Canadian Born Settlers of the Canadian Great Plains" (with Michael Percy) presented at the Seventh Annual Meeting of the Social Science History Association held in Bloomington, Indiana. His paper "Agricultural Output and Efficiency in Lower Canada, 1851" with Frank Lewis will appear in *Research in Economic History*. He reviewed *The Economic Development of Canada* by Richard Pomfret in *Labour/Le travailleur*. McInnis is continuing work on volume III of the Historical Atlas of Canada. The project has been in

progress for three years and is expected to take another two to completion. He is starting work on a book on Agriculture in Canadian Economic Development – a logical outcome of the work he has been doing in the area for many years.

In November, **Douglas Purvis** was appointed to the Economic Advisory Panel by the Minister of Finance Marc Lalonde. He was again the toast of travel agents as he presented papers at Princeton, Wilfrid Laurier, Trent, and the University of Western Ontario; the Bank of Canada, the World Bank, The Conference Board of Canada, the Central Bank of Ireland, and the Department of Finance (Ottawa); as well as the CEA meetings in Ottawa, and the Econometric Society Meetings in Mexico city and Ireland. He also attended the NBER Summer Workshop in International Economics in Cambridge Massachusetts, and organized the Roundtable on the Federal Deficit and the Second John Deutsch Roundtable on Economic Policy, both reported elsewhere in the Newsletter.

As well as the work with Rick Harris mentioned above, Doug Purvis has coauthored two forthcoming articles with Neil Bruce: "The Specification and Influence of Goods and Factor Markets in Open Economy Macroeconomics" in *Handbook of International Economics* (eds. Peter Kenen and Ronald Jones), "Fiscal Policy and Recovery from the Great Recession" prepared for *Barriers to Recovery*, a symposium sponsored by *Canadian Public Policy*. "Oil, Disinflation and Export Competitiveness" (with William Buitter) will appear in *Economic Interdependence and Flexible Exchange Rates* (eds. J.Bhandari and B.Putnam). Richard Lipsey and he co-authored a series of articles on inflation for the *Financial Post* for which they won the prize in the nonjournalist category of the 1982 National Business Writing Awards.

**Rick Harris** and **Nancy Olewiler** returned to Queen's this year from UBC but will be away again next year in Cambridge, Massachusetts at the Massachusetts Institute of Technology and in Australia examining Natural Resources. Nancy is currently working on models of

natural gas supply in Canada and has recently completed work with Frank Flatters on Saskatchewan potash policies and government-managed cartels. She presented papers on both topics at the CEA meetings in Vancouver.

Rick presented papers last year at the Ontario Economic Council, Acadia, Stanford, the Universities of Victoria, Western Ontario and Toronto, at McMaster, at the Econometric Society, both in Dublin and in New York and at the second John Deutsch Roundtable on Economic Policy. He is currently working on a large project on trade and industrial strategy for the Ontario Economic Council as well as on the foundations of applied welfare economics and dynamic oligopoly.

**Jon Harkness** will be on sabbatical leave next year at Warwick on an SSHRCC Leave Fellowship. This year he completed "The Factor-Proportions Model with Many Nations, Goods and Factors" forthcoming in the *Review of Economics and Statistics*, "Optimal Intervention for a Small Open Economy" to be published in J.Bhandari & S.Turnovsky (ed.) *Optimal Exchange Regimes* (proposed title) and "Intermediate Imports, Expectations and Stochastic Equilibrium under Flexible Exchange Rates", in the *Canadian Journal of Economics*. He also wrote two reviews, one of K.Nagatani, *Macroeconomic Dynamics* in the *Canadian Journal of Economics* and the other of C.Dougherty, *Interest and Profits*, in *Annals of the American Academy of Political and Social Science*. He is currently working on structural unemployment and exchange intervention, on sterilized intervention, and on the macroeconomic effects of a monopolized resource sector.

**Slobodan Djajic's** paper "Monetary and Commercial Policy in a Two-Country Flexible Exchange Rate Model with Perfect Capital Mobility" is scheduled to appear in the *Journal of Monetary Economics*, August 1983. His work on "Intermediate Inputs and International Trade: An Analysis of the Real and Monetary Aspects of a Change in the Price of Oil" is scheduled for publication in the August 1983 issue of the *Journal of International*

*Money and Finance*. "Rent-Extracting Tariffs and the Management of Exhaustible Resources", a joint paper with James Brander, has been published in the May 1983 issue of the *Canadian Journal of Economics*. His paper "Balance-of-Payments Dynamics and Exchange Rate Management" appeared in the August 1982 issue of the *Journal of International Money and Finance*. He is currently working on exchange rate dynamics and reserve use under managed floating and on models of trade in exhaustible resources.

**Charlie Beach** and **Steve Kaliski** continued with their major research project on labour market behaviour in Canada. They have two papers forthcoming: "Measuring the Duration of Unemployment from Gross Flow Data" in the *Canadian Journal of Economics* and "On the Design of Unemployment Insurance and the Impact of the Recent Amendments" in *Canadian Public Policy*. They presented a paper "Some Aspects of Labour Market Behaviour in Canada, A Study Based on Gross Flows" to the Eastern Economics Association Meetings in Washington and are now examining Annual Work Patterns micro data. A paper based upon some preliminary work with these data was presented at the CEA meetings in Vancouver.

In addition to his work with Steve Kaliski, Charlie Beach's paper with F.S.Balfour, "Estimated Payroll Tax Incidence and Aggregate Demand for Labour in the United Kingdom" has just been published in *Economica* and a paper with Russell Davidson, "Unrestricted Statistical Inference with Lorenz Curves and Income Shares" will be published in *The Review of Economic Studies*.

In addition to his work with Charlie Beach, Steve Kaliski's article, "Unemployment", will be published in the *Canadian Encyclopedia*.

**Klaus Stegemann's** paper "Special Import Measures Legislation: Detering Dumping of Capital Goods" was published in *Canadian Public Policy*. "The Net National Burden of Canadian Anti-Dumping Policy: Turbines and Generators" has been published in the *Cornell International Law Journal* and "Wasteful Imports due to Domestic Monopoly in



a Spatially Differentiated Market" appeared in the *Southern Economic Journal*. The CBC interviewed Klaus about the GATT Ministerial meeting in Ottawa last fall and members of the Canadian GATT delegation consulted with him. He presented a paper on "The New Protectionism or the Failure of the Domestic Distortions Approach" at the Fifteenth International Economic Conference of the Atlantic Economic Society in Paris in March 1983. His paper "The Social Costs of Monopoly in an Open Economy" was released as Institute for Economic Research Discussion Paper No. 492 and was presented at the CEA meetings in Vancouver. Klaus also served as Chairman of the Curriculum Committee of the Faculty of Arts and Science and directed the undergraduate thesis course.

**Mike Abbott** returned from his sabbatical year at Princeton in the fall of 1982. His paper "Specification Tests of Quarterly Econometric Models of Aggregate Strike Frequency in Canada" appeared as Working Paper No. 147 of the Industrial Relations Section, Princeton University, May 1982, and is forthcoming in *Research in Labor Economics: a Research Annual*, Vol 6 (1983). He also produced another working paper in the Princeton Industrial Relations Section series (No. 154), "An Econometric Model of Trade Union Growth in Canada: 1926-1966". He is continuing work on an undergraduate textbook in labour economics (with Orley Ashenfelter).

**Donald Wood** has been appointed the first Director of the new School of Industrial Relations. He has been Director of the Industrial Relations Centre as well as a professor in the Economics Department since 1960. Principal Ronald Watts' announcement of this appointment cited him as "the guiding force in initiating the development of the Masters Degree Programme in Industrial Relations, to begin in September 1983". This will be a multi-disciplinary programme involving the School of Industrial Relations, the Economics Department, and the Faculties of Law and Business. Don Wood is the senior editor of *The Current Industrial Relations Scene in Canada*. The 1983 edition will be published this July. As well

as presenting papers at four IR Centre conferences, he spoke at several conferences across Canada on personnel and industrial relations issues. He was a guest speaker at conferences held by the following groups: Canadian Broadcasting Corporation executives, Canadian Daily Newspaper Publishers Association, Municipal Officers Association of British Columbia, Crown Corporations, Institute of Chartered Accountants, Canadian Association of Law Librarians, and the Winnipeg Personnel Association. He participated in the conference on "The Role of Universities in Ontario", organized for the Council of Ontario Universities by the Deans of Arts and Science of Ontario.

**Alan Green** coordinated and chaired an interdisciplinary seminar on Economic and Social History. He presented a paper "Productivity and Technological Change in the Canadian Railroad Industry 1870-1930", to the Twelfth Conference on Quantitative Methods in Canadian Economic History, held at the University of Alberta. His book, *Ontario Metal Mining: A Statistical Compendium* was published by the Government of Ontario recently. He is working on a text in Canadian Economic History, on prices and productivity in the Ontario gold mining industry, and on a choice theoretic migration model of Canadian immigration.

In April 1983, **Gordon Fisher** left the University of Montreal, where he had spent the first part of his sabbatical leave, for Gothenburg, Sweden to be guest of the Institute of Statistics at the University. While in Sweden he delivered papers at the Universities of Stockholm and Uppsala as well as Gothenburg. He went to INSEE, Paris, France in May for a prolonged stay, to continue work on co-ordinate-free methods for which French econometrics is justly famous. During this period he presented papers at the *Seminaire d'Edmond Malinvaud*, Université de Paris, ENSAE and the University of Amsterdam. These papers were based on his work on the geometry of testing separate regressions, which was later published in the *Journal of Econometrics* under the title "Tests for Two

Separate Regressions". During the period August-September he was Distinguished Visiting Scholar at the University of Liverpool, England where he presented papers to the Leeds-Manchester-Liverpool Econometrics Workshop and to the Conference on Open-economy Macro-models. Following this conference he delivered a paper (jointly authored with M.McAleer and P.Volker of the Australian National University) entitled "Separate Mis-specified Regressions and the U.S. Long-run Demand-for-money Function" at the Econometric Society European Meeting, Dublin, Ireland. This paper was later published in the *Review of Economics and Statistics*. He also published a paper, with M.McAleer, entitled "Testing Separate Regression Models Subject to Specification Error" in the *Journal of Econometrics*. His work on model specification, selection and change within the co-ordinate-free framework is continuing.

**Richard Lipsey** published the following papers this year: "An Economic Theory of Central Places" (with B.C.Eaton) in the *Economic Journal*, "Inflation in Canada" in *Cost and Management*, "The Crisis of World Inflation I: The Search for Cause", in the *Canadian Business Review* and "Government and Inflation" in the *American Economic Review*. He has the following articles forthcoming: "Common Ground for the Common Market" (with Frank Flatters) as a monograph to be published by the Institute for Research in Public Policy, "Can the Free Market Economy Survive?" in a series of essays to be published by the Fraser Institute, "Address Models of Value Theory" in a collection of essays to be published by the International Economics Association, "The Crisis of World Inflation II: Costly Cures, Permanent or Short Lived?" in the *Canadian Business Review* and "After Monetarism", in *Essays* edited by John Cornwall.

He has been revising *An Introduction to Positive Economics and Economics* (now written jointly with Purvis and Steiner) as well as working on new industrial organization with B.Curtis Eaton. He has made appearances on Ontario Public Television and Kingston Cablenet and written several articles in the *Financial Post*, some individually, some jointly with Doug Purvis for which they have

just been awarded the annual prize for the best financial writings by a non-professional journalist. He completed two programs in the "Ideas" CBC series on inflation. The University of McMaster awarded him an honorary LLD degree in the spring of 1983.

**Tom McCurdy's** joint paper with Allan Gregory of the University of Western Ontario, "Efficiency of the Forward Foreign Exchange Market: A Stability Analysis using Canada-United States Weekly and Monthly Data", was issued as IER Discussion paper No. 507. This collaboration is continuing and includes work on speculation and structural change in financial markets. Tom gave a paper on non-steady-state dynamic growth models at the Canadian Conference on Economic Theory in Edmonton, and one on the role of expectations in capital and growth theory in the medium-term at the CEA meetings in Ottawa. He is currently extending this work by modelling potential versus actual growth paths with applications to the macroeconomic effects of microelectronic technology. He has also served as a referee for a number of professional journals.

**Bentley MacLeod** arrived at Queen's in September 1982 from the University of British Columbia. By January 1983 he was on a post-doctoral fellowship to visit the Institut des Sciences Economiques and CORE at the Universite Catholique de Louvain. He will return to Queen's by September 1983. He is working on his doctoral thesis, "Perspectives on Oligopoly Theory". He presented his paper "A Model of Conscious Parallelism and Implicit Bargaining" to the Canadian Conference on Economic Theory in Edmonton and "On Locally Rational Oligopolistic Equilibria" to the Industrial Organization Conference at Concordia.

**James MacKinnon** returned from sabbatical in sunny San Diego. While there he presented papers at a number of places, including the Rand Corporation, the Berkeley, Los Angeles and Irvine campuses of the University of California, Stanford University and the University of British Columbia. His survey paper,

"Model Specification Tests Against Non-nested Alternatives", appeared in *Econometric Reviews*. In addition, he and **Russell Davidson** continued their joint research on model specification tests, supported by grants from the SSHRCC. Their paper, "Some Non-nested Hypothesis Tests and the Relations Among Them" appeared in the *Review of Economic Studies*, while "Model Specification Tests Against Non-nested Alternatives: Some Further Results" (with H.White) appeared in the *Journal of Econometrics*, and "Small Sample Properties of Alternative Forms of the Lagrange Multiplier Test" is forthcoming in *Economics Letters*. As a change of pace from theoretical econometrics, they also produced "Inflation and the Savings Rate", which will appear in *Applied Economics*. Besides several new and as yet unpublished papers with Davidson, MacKinnon has recently written "A Convenient Way to Estimate Linear Regression Models with MA() Errors" (with G.MacDonald) and "A Modified Heteroskedasticity-Consistent Covariance Matrix Estimator with Improved Finite Sample Properties" (with H.White). Paperback rights are still available.

Davidson's paper "Economic Dynamics" was published in *Self Organization and Dissipative Structures* (eds. W.C. Schieve and P.M.Allen). He presented "Transactions Costs, Exchange Clubs and Price Discrimination" (with S.Coulombe) and "Second Best and Stepwise Control" (with G.C.Archibald at the Canadian Economic Theory Conference. His paper with Charlie Beach, "Distribution-Free Statistical Inference with Lorenz Curves and Income Shares" will appear in the *Review of Economic Studies*.

**John Baldwin** has spent the year working on a study of how Canadian industry adapted to trade liberalization over the last two decades. A paper entitled "Entry to Canadian Industry" was given to the autumn 1982 meetings of the European Association for Research in Industrial Economics. Subsequently work on the exit process was also completed and the two were combined in Discussion Paper No. 225 of the Economic Council of Canada. Another paper in the series - testing the effect of declining tariffs on

the extent of suboptimal plant scale in Canada - was given at the Vancouver meetings of the Canadian Economic Association. Three more papers are in the works - one dealing with the effect of trade liberalization on plant diversity and product run length, one on the relationship between small plant size and excessive product diversity and one on the effect of trade liberalization on product diversity. Incidentally, this work is being done jointly with a former Queen's graduate - Paul Gorecki - who is now at the Economic Council.

John would like to thank former colleagues and students who last year noted in this newsletter the birth of his daughter and wrote so many kind notes. Robyn Baldwin is doing very well.

**Jack Mintz**, whose work has concentrated primarily on taxation and public enterprise, has published the following papers since the last newsletter. With his colleagues Robin Boadway and Neil Bruce he has published a paper "On the Neutrality of Flow of Funds Corporate Taxation" which appeared in *Economica* 1983 and "Corporate Taxation in Canada: Towards an Efficient Tax System" which appeared in *Tax Policy Options in the 1980's*, ed. by W.Thirsk and J.Whalley, Canadian Tax Foundation, 1982. With Robin Boadway, Mintz published a survey "Issues in Public Finance: Reflections on a Conference held at Queen's University" in the *Canadian Tax Journal*, 1982. Although Mintz enjoys collaboration with his colleagues, he has also published a few of his own pieces of work this year: "Neutral Corporate Taxation, Risktaking and Optimal Profit Taxation" in *Recherches Economiques de Louvain*, a book review on D.Bos, *Economic Theory of Public Enterprise* and discussant remarks in *Inflation and Taxation of Personal Investment Income* edited by the Ontario Economic Council. He has currently completed two CORE, Belgium discussion papers on public enterprise pricing in economies of disequilibrium with M.Marchand and P.Pestieau and two Queen's discussion papers on "The User Cost of Capital with Imperfect Loss Offset Taxes" and "Inflation, Taxation and the User Cost of Capital in Canada" with

R.Boadway and N.Bruce. A third paper has been completed on "Commodity Tax Competition amongst Jurisdictions" with H.Tulkens of Belgium.

Mintz was a discussant at a conference in Liege Belgium on "Performance of Public Enterprises" and he has given seminars at McMaster, Western, Toronto and Carleton this year.

**Frank Flatters** continued work on federalism and regional policy issues as well as on industrial policy. In the area of federalism and regional policy, a paper with Robin Boadway "Efficiency and Equalization Payments in a Federal System of Government: A Synthesis and Extension of Recent Results" appeared in the *Canadian Journal of Economics*, "Financing Confederation, a Rejoinder" (with Robin Boadway) appeared in *Canadian Public Policy* and "Revenue Sharing and the Equalization of National Resource Revenues", (with Robin Boadway and Alfred Leblanc) is forthcoming in *Canadian Public Policy*. *Common Ground for the Canadian Common Market* a study with Richard Lipsey will be published by the Institute for Research on Public Policy (Ottawa). A paper "Should Ontario Adopt its Own Personal Income Tax? Implications for the Canadian Common Market" was prepared for the Ontario Economic Council in the area of industrial policy. His paper (with A. Abonyi) "Problems of Industrial Policies in a Small Open Economy: An Overview of Canada" will be published in English in *Proceedings of the Third Canadian-Hungarian Economic Roundtable*, and in Hungarian in *Ipar Politikai Tajekoztato (Industrial Policy Review)*. Papers on federalism and regional policy issues were delivered at: Conference of High School Teachers of Economics (Ottawa) and Carleton University, Department of Economics. Papers on industrial policy issues in small open economies were delivered at: Third Canadian-Hungarian Economic Roundtable (Budapest), Hungarian Ministry of Planning and Hungarian Institute for Systems Analysis (Budapest) and Royal Military College.

He continued as Chairman of Graduate Studies until April when he left for six-

teen months in Djakarta as an advisor to the Indonesian Government.

In addition to the work with Frank Flatters described above, the following papers by **Robin Boadway** are forthcoming: "Unemployment Insurance and Redistributive Taxation", with A.Oswald, in the *Journal of Public Economics*, "On the Neutrality of Flow-of-Funds Corporate Taxation", with N.Bruce and J.Mintz, in *Economica* and "The Corporate Tax: Should it be Reformed or Abolished?", in *Canadian Tax Foundation, Proceedings of Annual Conference*. He prepared "The Effect of the Personal Income Tax on Savings and Investment" with Neil Bruce for the Ontario Economic Council. "Issues in Public Finance: Reflections on a Conference Held at Queen's University", with Jack Mintz appeared in the *Canadian Tax Journal* and "On the Method of Taxation and the Provision of Local Public Goods: Comment" in the *American Economic Review*. "The Role of the Corporate Tax" was presented to the Canadian Tax Foundation Annual Conference and "Federal Provincial Tax Sharing: Policy Implications for 1982" to the Annual Outlook Conference of the Toronto Association of Business Economists. He also presented papers at UBC, Simon Fraser, Trent, Acadia, McMaster, Concordia and Laval. He is, of course, Head of the Department.

**Dan Usher's** book "The Economic Prerequisites to Democracy" has already been translated into three languages: German, French and Japanese. This year he was elected a Fellow of the Royal Society of Canada. He reviewed the following books this year: Theodore W.Schultz, *Investing In People: The Economics of Population Quality* in the *American Academy of Political and Social Science*, Peter Chinloy, *Labour Productivity* forthcoming in the *Canadian Journal of Economics*; Albert O. Hirschman, *Shifting Involvements: Private Interest and Public Action* forthcoming in *Queen's Quarterly*; and Geoffrey Brennan and James M.Buchanan, *The Power to Tax* forthcoming in the *Journal of Economic Literature*. His paper "Firm Specific Investment Grants" was circu-

lated as Institute for Economic Research (IER) paper No. 511. He is currently working on theft as a paradigm of externalities but claims the paper has been stolen.

**Scott Gordon** continued his work on the history of economic thought. During the past year, "Why Did Marshall Transpose the Axes?" appeared in *Eastern Economic Journal*, and "A Paraphrase Version of Keynes" was issued as Institute for Economic Research Discussion Paper No. 476. He has released part I of his book, *An Introduction to the History and Philosophy of Social Science*, in mimeograph. He gave a paper at the meetings of the International Union for the History and Philosophy of Science held at Virginia Polytechnic Institute and State University.

**Rod Fraser** has been appointed Dean of the Faculty of Arts and Science for a five year period from 1 May 1983 to 30 June 1988. He has been a continuing member of the operating grants committee of the Council of Ontario Universities since 1976. He has been Acting Dean of the Faculty since March 1981. He presented "Funding and Policy Issues for the 80's and 90's" to the Conference on Health in the 80's and 90's and its Impact on Health Sciences Education, on March 14-17, 1982. The paper will be published in the Conference Proceedings.

**Gordon Sparks** spent his second year on leave at MIT. He has been teaching at MIT, at Wellesley College, and at Tufts University. A paper he presented at the CEA Meetings in Ottawa, "Expectations and Independent Monetary Policy in an Open Economy: Should Canada Follow U.S. Interest Rates?", was issued as an MIT Working Paper. He is working on a small empirical rational expectations model of the Canadian exchange rate. He will be returning to the QED in July.



## John Deutsch Memorial for the Study of Economic Policy

The John Deutsch Memorial for the Study of Economic Policy, under its Director, David C. Smith, has established a long-run objective of a larger role in Canadian economic research and public policy debates. As part of this objective, it has concentrated initially on sponsoring and organizing conferences. This year, it will begin its publishing career with a series of reports or papers from these conferences.

The Second John Deutsch Roundtable, organized by Douglas D. Purvis, was held 11-12 November 1982. This Roundtable focussed on economic adjustment and public policy in Canada. The opening session concerned the intransigence of inflation. The next day there were sessions on market adjustment and government policy, on capital markets, debt and the economic adjustment process and on natural resource rents and inter-regional economic adjustment. Discussion the final morning centred on problems and policies for adjustment in labour markets and on a summary and wrap-up of the conference. About 70 people from business, government research institutes and universities attended. Financial support was provided by the SSHRCC and a group of supporters from the private and public sectors. A report of the Conference, edited by Doug Purvis and including the papers and a summary of the discussion will be published this year.

In February a conference on "Canadian Labour Markets in the 1980s" was jointly undertaken by the John Deutsch Memorial and the Industrial Relations Centre at Queen's. Additional financial support came from the SSHRCC, fees and the public sector.

The conference's purpose was to evaluate various aspects of Canadian labour markets - supply and demand projections, the nature and extent of possible labour market imbalances, and the direction of employment and related educational policies. There were about 75 participants from a wide cross section of labour, business, government and universities. The organizing committee consisted of W. Donald Wood and Pradeep Kumar of

the Centre for Industrial Relations and David Smith and Steve Kaliski of the Department of Economics. The conference proceedings will be published in association with the Industrial Relations Centre this year.

In the spring of 1983, the Memorial inaugurated a new series of meetings called Policy Forums. These are designed to bring together a small group of experts on a leading policy issue and to produce quickly a rapporteur's report on the discussion which will be published and circulated widely. Rick Harris led off in early May with a Policy Forum on industrial strategy, followed by one, organized by Neil Bruce, on the Federal budget.

If you are interested in ordering publications, please inform Mrs. Vera Janzen, Department of Economics. Also, any comments on the development of the Memorial will be most welcome.

## Recent Ph.D. Recipients

1982 - OCTOBER

### **Gilchrist, Donald Alexander**

Oligopoly with inventories: Equilibrium, behaviour, and market stabilization.  
Supervisor: R.G. Harris

### **Hobson, Paul Alexander Robert**

The local property tax and alternative sources of local government revenues: A general equilibrium analysis.  
Supervisors: R.J. Arnott and J.G. MacKinnon

### **Lange, Ronald Henry**

A theoretical analysis of revenue equalization.  
Supervisors: R.J. Arnott and R.W. Boadway

1983 - MAY

### **MacKinnon, Keith Thompson**

A two-asset dynamic disequilibrium model.  
Supervisor: D.D. Purvis

### **Sampson, Michael James**

Frequency-domain identification of time-series models with multiple inputs.  
Supervisors: C.M. Beach and R. Davidson

EDITOR Alison Morgan

SECRETARIAL Patti Evans

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