

A Message from the Head

Spring was probably more welcome in the Department this year than most (although the weatherman hardly cooperated). On top of a characteristically busy year for scholarly activities and increasing pressures of student numbers at all levels, the Department undertook a thorough review of the undergraduate programs and made some significant and timely changes to them. On the advice of a committee ably chaired by Alan Green, the Department (and Faculty) approved a series of curriculum changes. The essence of these changes as they concern the Honours B.A. was to streamline the program by moving the core material as far forward as possible, introducing new core material in the third year and ensuring that the courses of a given year build upon those of the preceding year. The major substantive changes involved first moving the statistics requirement to the second year and the econometrics to the fall of the third year. A new third year microeconomic theory course will be introduced in the winter term of the third year. It will serve as a prerequisite for fourth year applied microeconomics courses. A core requirement of third and fourth year macroeconomics courses was also instituted. Finally, the honours thesis will be retained and given more structure. In response to the growing numbers of honours students, more than one section of the thesis class will be offered. Overall, we feel that the new program will offer students a much more thorough training in basic economic skills. Students will have more opportunity to use core materials in upper year courses and will be better prepared for the workplace or for graduate school.

Absent from the Department for one reason or another this past year was the usual large contingent. Rick Harris and Nancy Olewiler spent the year on sabbatical at MIT while Jon Harkness took his at Warwick in England. Jim Brander was visiting professor at UBC for the year and Lorne Carmichael was a Research Fellow at the Hoover Institute in San Francisco. Frank Flatters was in Jakarta for the first of two years as Project Director of the Indonesian Trade Policy Project of the Harvard Institute for International Development. And, as *Financial Post* readers will know, Dick Lipsey has been carrying on his policy work with the C.D. Howe Institute in Toronto.

We were fortunate to have an able group of visitors as replacements. The list included a number of scholars from the U.K. – Roy Bailey from Essex, John Drifill from Southampton, Christopher Heady from University College London, Richard Smith from Manchester, and, for the second year, the inimitable David Webb, formerly of Bristol, now of the LSE. Hugh Neary of UBC was here for the year, as was Jim Sentance who moves on to Trent University. One term visitors included Bob Conlon and Ben Hunt from New South Wales, Dan Richards from Hamilton College, and, once again, George Freeman, former Deputy Governor of the Bank of Canada. Finally, we were most fortunate that Bill Watson of McGill chose to spend his Sabbatical at Queen's. In addition to his contributions as a policy expert and raconteur (as evidenced elsewhere in this Newsletter), Bill paid his dues by organizing a John Deutsch Policy Forum on Health Care, and by agreeing, not foolishly as it turned out, to debate Lester Thurow on Industrial Policy as part of the Mackintosh Lecturer proceedings.

We were also well-served by a large number of distinguished visiting speakers at the various workshops. A sample of them included H. Polemarchis (Columbia, CORE), David Giles (Monash), Richard Manning (Univ. of Canterbury), Martin Browning (Bristol visiting Princeton), Peter Garber (Rochester), Mark Watson (Harvard), Pradeep Mitra (World Bank), George Maddala (Florida), Ian Domowitz (Northwestern), Larry Christiano (Chicago), Bill Rogerson (Stanford), Paul Romer (Rochester), Jay Wilson (Columbia), Esfandiar Maasoumi (Indiana), Dilip Abreu (Harvard), David Card (Princeton), Andrew Oswald (Oxford), John Knight (New South Wales visiting Indiana), Joshua Averman (Pennsylvania), Avi Braverman (World Bank), Jim Poterba (MIT), Barry Chiswick (University of Illinois at Chicago), and Ted Bergstrom (Michigan).

The Mackintosh Lecturer for 1983-84 was Lester Thurow, the well-known political economist from MIT. He gave a provocative lecture on industrial development and took part in a highly-successful debate on industrial policy. Much of his time was spent in the faculty lounge discussing questions of economic policy with students.

The John Deutsch Memorial Fund continues to develop momentum under the directorship of Doug Purvis. As discussed elsewhere, we have run several one day Policy Forums, and a roundtable, on productivity. The stature of the John Deutsch Memorial was recognized by the University when the Senate agreed to convert it to a full-fledged Institute. It will officially be known as the John Deutsch Institute for the Study of Economic Policy. In addition to the conference activities of the John Deutsch, Richard Arnott organized a conference in Urban and Regional Economics in June.

As usual, synopses of the activities of Department members are presented in a later part of the newsletter. Some achievements warrant special mention here. David Smith will become the sixteenth Principal of Queen's in September. This will nicely dovetail with the winding down of his activities as research director for the MacDonald Royal Commission. Rod Fraser became Dean of Arts and Science during this past year. We wish them both well in their new posts. Richard Arnott completes his term as Secretary Treasurer of the Canadian Economics Association, while Steve Kaliski becomes Vice President of the same organization. Finally, it is with regret that I report that Jim Brander has resigned from the Department to join the Faculty of Commerce and Business Administration at UBC. His immense contributions to teaching and research will be difficult to replace.

Next year's Newsletter will be edited by Ann Green, who will also be sitting in next year for Alison Morgan as Senior Administrative Assistant. Alison will spend the year at UBC with her husband Ieuan who will be on sabbatical from the School of Business. Regrettably, Alison will not be returning to the Department after her year away. To the extreme good fortune of Queen's, she has been appointed Secretary of the University and the Board of Trustees to replace Mr. John Bannister who is retiring. Alison will be missed not only as the guarantor of a smoothly functioning department, but also as research officer, Newsletter editor, John Deutsch conference convenor, undergraduate teacher and a friend to all. We wish her success in her new role.

Robin W. Boadway

John Deutsch Institute for the Study of Economic Policy

A New Phase

The John Deutsch Memorial for the Study of Economic Policy was established at Queen's University by his friends at the time of his death in 1976. In June 1984 it became the John Deutsch Institute. It is therefore relatively new, but it builds on a long tradition of interest and participation by Queen's economists and political scientists in national policy issues. The first head of the Department of Political and Economic Science at Queen's, Adam Shortt, produced the first collective investigation of the history of Canada and went on to become the first chairman of the federal civil service commission in 1908. The second, O.D.Skelton, became Undersecretary of State for External Affairs after an academic career. John Deutsch, for whom the JDI is named, was a protege of W.A.Mackintosh, another head of the department and eventually principal of Queen's. Dr.Mackintosh's work for government in the areas of Dominion Provincial Relations, Unemployment Insurance and post war reconstruction had a major impact on the direction of public policy in Canada in the wartime and post war periods. Current members of the department have very active links with government. Six are advising and producing reports for the Macdonald Commission. Others are working for the Ontario Economic Council, the Economic Council of Canada, the Departments of Finance, of Energy, Mines and Resources, of Consumer and Corporate Affairs and of Regional Industrial Expansion and the Canadian Tax Foundation.

John Deutsch himself had a highly successful career based on both public service and academic work. On the public side he was the first chairman of the Economic Council of Canada. His final academic role was as Principal of Queen's.

The purpose of the Institute is to commemorate, at the University over which he presided, John Deutsch's interest in the study and development of economic policy. The emphasis is on independence and quality. The organization of the Institute reflects the longstanding commitment of the Department of Economics to research in public policy. It is governed by the department as a whole. The head of the department is also head of the JDI,

and he appoints the director. This gives a department of international repute a stake in the quality of work. Breadth is assured by an advisory council and an executive committee drawn in large part from outside the department and from outside the university. Independence is preserved by the university setting.

The two men who have served successively as Director of John Deutsch Memorial for the Study of Economic Policy reflect the traditions of academic achievement, wide ranging interests and public service. The first Director, David C.Smith, is currently Director of Research (Economics) for the Royal Commission on the Economic Union and Development Prospects for Canada. He was head of the Department of Economics for fourteen years during which it moved to an increasingly international reputation. He

resigned as Director of the Memorial to prepare for his appointment as Principal of Queen's in the fall of 1984. Douglas D.Purvis, the current director, has been involved with public policy concerns through his academic research in macroeconomics, through his role as a member of the Economic Advisory Panel of the Department of Finance, through his column with Richard G.Lipsey in the Financial Post and through the John Deutsch Roundtables on Public Policy.

During its initial phase, the activities of the Institute were carefully chosen to avoid any costly depletion of its funds while its potential to develop was assessed. During the last two years the Institute has moved into a second phase with a much higher profile. This year the University has recognized this increasing stature by conferring institute status. Recent conferences

Past and Future Activities, 1980-1985

	POLICY FORUMS
May 1983	Federal Budget of 1983, Neil Bruce* Industrial Strategy, Richard G.Harris*
December 1983	Third World Debt and the International Financial System, Gordon R.Sparks**
7 March 1984	Medicare in an Age of Restraint, William G.Watson*
27 April 1984	Tax Reform and the Consumption Tax, Jack Mintz**
31 May 1984	Special Import Measures Legislation, Klaus Stegemann**
	JOHN DEUTSCH ROUNDTABLES
October 1980	I Canadian Balance of Payments, Douglas D.Purvis**
November 1982	II Economic Adjustment and Public Policy in Canada, Douglas D.Purvis**
11-13 July 1984	III Long-Run Productivity and Growth, Douglas D.Purvis
	OTHER CONFERENCES
August 1981	Public Finance Workshop, J.Mintz and R.W.Boadway*
February 1983	Canadian Labour Markets in the 1980s (with the Industrial Relations Centre)*
June 1983	Canadian-Hungarian Roundtable, Frank Flatters
September 1984	Canadian Econometric Study Group, C.M.Beach and J.G.MacKinnon
Spring 1985	Economic Problems and policies in British Columbia, D.D.Purvis

*Conference volume or report published. **Conference volume or report in press.
To order, see enclosed order form.

and workshops are listed below. As the list also shows, the Institute is currently publishing two series. The John Deutsch Roundtable Series is composed of the proceedings of major conferences on major economic policy issues. The Policy Forum Series consists of rapporteurs' reports of one day forums on issues of current economic policy concern. These series will continue.

As funds and the interests of Institute members dictate, the group will undertake other initiatives. Interest has been expressed in a fiscal studies group, in studies of industrial structure, in reviews of current economic policy, and in modelling international financial flows.

The JDI is intended to be of value to research economists across Canada. With the slowing of growth of academic departments, with the financial constraints on university financing, and with increasing tenure ratios, there is a serious danger of a decline in the dynamism and quality of academic research on economic issues in Canada. In addition, there is the problem that research economists in business, government and other institutions may become increasingly out of date. There is a responsibility for a group, such as that at Queen's, to provide, as it has done in earlier times, opportunities for research economists in Canada to hone their research skills. The John Deutsch Institute through the Department of Economics at Queen's is well placed to undertake this task. Its graduates teach in almost all economics departments in Canadian Universities (including the french ones) and are found throughout industry and government.

More generally, the John Deutsch Institute is striving to improve the quality of public debate on economic issues in the society. The present serious economic conditions increase the difficulty of financing the development of the John Deutsch Institute for the Study of Economic Policy but they increase the potential social importance of its development.

Key Features

- An emphasis on incentives for quality through linking with the Queen's Economics Department which is considered to be one of the best and most productive

in the country and which is unlikely to tolerate an association with an Institute of poor quality.

- An organizational flexibility through a modular structure that permits the size of the operations to be determined by the number of high quality, largely self-contained activities, that avoids wasteful overhead, and that allows contributors of funds to identify clearly the use to which the funds are put.

- A breadth of participation and an avoidance of the development of a narrow ideological bias. People interested in economic policy issues, who come not only from throughout Queen's but also from throughout the country, will be associated with the JDI. An Advisory Council drawn in large part from outside the Department and outside the University will be appointed.

- A distinctive association of its work with the educational process not only at the time of initial, formal university studies but also in the continuing education of those involved in economic research and advising in public and private institutions.

New Director

Douglas D.Purvis

Douglas D.Purvis has been appointed Director of the John Deutsch Institute. He has already been closely associated with JDI activities; he organized the first three John Deutsch Roundtables on Economic Policy and edited the proceedings. The first took place in October 1980, the second in November 1982, and the third takes place in July 1984.

Dr.Purvis received his BA from the University of Victoria, his MA from the University of Western Ontario, and his AM and PhD from the University of Chicago. He has been teaching at Queen's, where he is now full Professor, since 1971.

He has published over forty articles in journals and books. This year's crop is given in the faculty news section of the Newsletter. Together with R.G.Lipsey and P.O.Steiner he has produced the 7th US edition of *Economics*. They are now putting the final touches on the 5th Canadian edition. This year was an average year in which he gave presentations to eleven different groups.

He is a member of the Economic Advisory Panel of the Department of Finance, Ottawa. He is also Book Review Editor of the *Canadian Journal of Economics* (1982-85) and served as a member of the Executive Council of the Canadian Economics Association from 1979 to 1982.

He has held visiting positions for short or long periods at the Cowles Foundation (Yale University), the Bank of Canada, the Reserve Bank of Australia, the Institute for International Economic Studies (Stockholm) the University of British Columbia, Simon Fraser University, the University of Victoria, the University of Western Ontario, and the University of Warwick, U.K.

He has had a regular column with R.G.Lipsey in the *Financial Post* since 1982. Last year they won the National Business Writers Award for financial reporting by a non-journalist.

He has been spending about one quarter of his time on activities of the John Deutsch Institute. The results of his initiatives to expand JDI activities appear in the rest of this section.

A Request

It is possible to direct gifts to the John Deutsch Institute through the Queen's Appeal, just as it is possible to direct gifts to any part of the University. The Department of Economics is very keen to see the John Deutsch Institute in a position to move ahead strongly. These are difficult economic times which make fund raising a problem, but which increase the need for good, policy-oriented research of the type the JDI promotes. If you are considering supporting the JDI but would like more information please write or telephone (547-3207) the Director, Douglas D.Purvis. It may be possible to acknowledge large gifts through sponsorship of a particular publication or event. If you have already decided that the JDI merits your support please indicate this on the University pledge form. If you have already pledged, write a note to the Department of Development, asking that your contribution be directed to the JDI.

Trade Liberalization and Industrial Organization in a Small Open Economy: The Case of Canada

Introduction

The benefits of free trade have long been persuasively argued by economists using the paradigm of 'comparative advantage'. In the post World War II period, Canada and other western industrialized nations have progressively reduced the tariff barriers that had reached great heights during the depression of the 1930s. But continued progress in reducing trade barriers has been threatened by protectionist sentiments that have developed during the period of slower economic growth in the 1970s.

Nevertheless, policy initiatives to expand trade – at least on the sectoral level between Canada and the United States – continue to emerge. Recent work by two members of the Queen's economics department – Richard Harris and John Baldwin – sheds additional light on whether this is a desirable policy to follow.

The recommendations of trade economists have generally been based upon a neoclassical model that presumes competitive markets and constant returns to scale. The neoclassical paradigm is limited in its applicability if markets do not behave competitively. Moreover attempts to measure the benefits of free trade using these assumptions showed only small improvements in welfare.

Recent work melding the field of industrial organization and trade has provided important new insights into the benefits of freer trade. Building on the themes developed, Richard Harris, in work done with David Cox for the Ontario Economic Council, has developed a new general equilibrium model to describe what should happen if there is trade liberalization. John Baldwin, in work done with Paul Gorecki for the Economic Council of Canada, has examined the empirical evidence that the trade liberalization already experienced has had the benefits predicted by the economics profession.

The General Equilibrium Model

Harris and Cox have reassessed the evidence on trade protection by including imperfect competition and economies of scale within a general equilibrium analysis. As a result of their approach, firms and industries that expand can reduce their unit costs. In the past, a common view of those opposing trade liberalization was that Canada was at a comparative disadvantage in all or virtually all forms of manufacturing activity and that liberalization would result in Canadians becoming no more than 'hewers of wood and drawers of water'.

The Harris-Cox simulations indicate this view is unfounded. Moreover, their estimates of the gains from freer trade are substantial. Based on 1976 data, they estimate the gain in Canadian real income to free trade would be on the order of 8 to 10 percent of GNP. Canadian labour productivity would increase by between 20 and 25 percent. Real income gains would follow because of lower prices for imported goods and higher wages to Canadian workers.

Focussing their attention on individual manufacturing sectors, they find that all except four of the twenty-nine industry groups studied would increase their production. The transportation equipment industry would increase its output by more than 120 per cent. The four industries that would lose are leather, machinery, miscellaneous manufacturing and furniture. A handful of troubled industries, such as clothing and knitting mills, would wither away under free trade. This is because these industries already rely upon substantial protection to survive import competition, they are labour intensive and the available estimates suggest they do not have economies of scale.

As might be expected, the estimates of the benefits of free trade are higher if

there is multilateral tariff elimination compared to unilateral elimination by Canada. But even if there is unilateral elimination of trade barriers, they claim that there would be a net benefit.

They also examine the issue of sectoral free trade. In a series of simulation experiments, they compute the gains or losses to Canada of our negotiating free trade arrangements in each of twenty manufacturing sectors. Their model suggests sectoral free trade arrangements would generate increased employment opportunities in manufacturing. The transportation equipment, paper products, and primary metals sectors would be the largest beneficiaries of sectoral free trade agreements. If sector arrangements were adapted in three industrial sectors – leather, clothing, and knitting mills – Canadian income would fall.

In summary, the authors' contribution lies in incorporating the importance of scale economies into a general equilibrium. Some of the specific results will be sensitive to the estimates of scale incorporated into the model, nevertheless, they have provided new and alternate view of the trade process that will profoundly influence economic research in this area in the years to come.

Past Experience

Baldwin and Gorecki, in contrast to Harris, have focussed on the past evolution of the manufacturing sector in Canada.

With the help of J. McVey of the Multinational Enterprise Division of Statistics Canada, they have assembled a unique large scale data base at the 4-digit level of the manufacturing sector covering the 1970s. Using this data base, they have examined the effects of trade liberalization on various factors that affect productivity – firm turnover, plant scale, product diversity and the length of production runs.

In their paper on entry and exit, their chief discovery was that entry responds positively to such incentives as growth of market size, and to a much lesser extent to profitability, but exit is a much more random process. Moreover, the latter is not insignificant. Plants that exited an industry between 1970 and 1979 accounted on average for about 16 per cent of industry sales as of 1970. This suggests there is a fair amount of turnover that is independent of industry well-being and that if these resources are redirected to the growing sectors (rather than enticed back into the dying industry) readjustment need not be too painful. The paper also sheds light on the contention that foreign firms will benefit from trade liberalization at the expense of domestic firms. If anything, domestic firms were able to take greater advantage of increased growth in exports.

In their second paper, Baldwin and Gorecki examine the extent to which trade liberalization has improved Canadian plant scale relative to American.

They find that the primary determinant of relative plant scale is market size and suggest that with a move to free trade, their estimates suggest Canadian plant scale would move up to the American level. They also find evidence to corroborate the Eastman-Stykolt hypothesis; where there are high tariffs and high concentration, Canadian plant scale is particularly small. Tariff cuts will therefore have their greatest impact in these industries. It also suggests the best defence against structural inefficiencies is tariff reductions rather than a more aggressive competition policy.

The third and fourth papers examine the effect of tariffs on product diversity. In recent years, economists have come to stress the lack of product line economies more than deficiencies in plant scale as the cause of Canada's productivity gap. These two papers find evidence that tariff protection has caused some of these problems. The third paper tests the hypothesis that too many products will be packed into plants in some industries. The fourth paper examines the extent to which product diversity has declined (and production run length increased) as trade liberalization proceeded in the 1970s. The results indicate that progress has been made in the direction predicted by the advocates of free trade. Baldwin and Gorecki do, however, find some negative adjustment costs and are careful to stress that these must be balanced against the increase in scale and length of production run that is experienced by some industries.

Thus, the work of Baldwin and Gorecki, complements that of Harris, in finding evidence for the type of relationships assumed in the simulation exercise. Lowering tariff barriers tend to affect the structural determinants of productivity in the assumed fashion. Continuing work is underway to link the structural changes already investigated to relative Canada/U.S. productivity in manufacturing.

Note

The report is based on the following papers:

Baldwin J. and P. Gorecki, with McVey J. and Crysedale J. 'Entry and Exit in the Canadian Manufacturing Sector, 1970-1979', Economic Council of Canada, Discussion Paper No. 225, (1983).

Trade, Tariff and Relative Plant Scale in Canadian Manufacturing Industries: 1970-1979', Economic Council of Canada, Discussion Paper No. 232, (1983).

The Relationship between Plant and Product Diversity in Canadian Manufacturing Industries: 1970-1979', Economic Council of Canada, Discussion Paper No. 237, (1983).

Trade, Tariffs, Product Diversity and Length of Production Runs in Canadian Manufacturing Industries: 1970-1979', Economic Council of Canada, Discussion Paper No. 247, (1984).

Harris R. and D. Cox, 'Trade Liberalization and Industrial Organization: Some Estimates for Canada', Institute for Economic Research, Queen's University, Discussion Paper No. 523 (1983).

Harris R., 'Applied General Equilibrium Analysis of Small Open Economies with Scale Economies and Imperfect Competition'.

John A. Karikari

HOMO SABBATICUS IN THE QED

'You'll love the summers', people keep saying, as the grey grip(pe) of winter closes round Kingston. Whoever decided limestone would be the Queen's motif committed a small act of genius, for it provides symbolic expression of the attachment with the past and with the surrounding land that is so strong here. But by the end of February, when the sky and the snow are the same limestone gray, and the retreating sun has drained all colour from people's faces (the wealthier undergraduates excepted), this oft-repeated promise of summer rings hollow.

That winter in Kingston is not only bearable but pleasant owes to the stark beauty of the frigid Lake and, of course, to the many winter sports available. Skating, hockey, cross-country ski-ing, and tramping across the ice all play their part. But, for all these, the favourite winter pastime in the QED is the Seminar.

With the Lake nearby, the visiting observer is drawn irresistibly to nautical themes. **James MacKinnon** sits front row centre, at the Department's prow, the better to spy and harpoon floundering arguments, which, once hooked, he drowns in rushing torrents of incredulity. Russell Davidson, second row right, plays jib to MacKinnon's prow, standing his turn at watch like some dapper, canny Scottish leprechaun. Solid, statesmanly **Doug Purvis**, navigator, calls out the soundings in his deep staccato, his jaw set, Prairiewise. **Alan Green**, jovial bosun, raises a song to lift the spirits. With worried brow, **Neil Bruce** keeps an eye to the weather. **Bentley MacLeod** shouts down a soliloquy from some lofty mast he has climbed, his words often as not lost in the wind. **Mike Abbott**, stowaway, suggests a side trip to Tahiti. Belowdecks, **Jack Mintz** scrutinizes the hull for leaks. **Dan Usher** and **John Hartwick** radio in messages periodically from their parallel expeditions. Cheery, dutiful **Alison Morgan** keeps the riggings straight, her mind turning in quieter moments to thoughts of taller ships. **Ross Milbourne**, with some clever piece of purposeful distractedness, reminds us of the task at hand. At the helm stands

Robin Boadway, silent, stolid, thinking, thinking. And, tracking our progress from shore, head wreathed in blue smoke, **David Smith** sends telepathic signals.

Collective traits there are, as well. If it is true that 'By their seminar habits shall ye know them', the QED shows itself, not unexpectedly, to be friendly, businesslike, and self-controlled. The speaker receives the briefest of introductions: name, subject, time limit (except when **Dave Backus**, who does not own a watch, is in the Chair, in which case it sits empty until 15 minutes into the talk and any introduction like as not is self-performed). There is very little whispered chat, few interruptions, and minimal back-and-forth on the floor. The clicking of the Conference Room clock, whose long hand moves but once a minute, provides a metronomic spur to speakers. At the end, applause is withheld and even handshakes and bonhomie are tidily reserved for the Club, where, according to custom, a circle of chairs first expands – drawing in chairs from surrounding tables, eventually filling half the room – and then contracts again, like some great sea creature slowly breathing. In the middle of winter, after a Tuesday or Wednesday seminar, it's almost possible to tell time – to the quarter-hour, at least – by the size of this circle of chairs. When it is back to its original circumference, talk turns to restaurants, the speaker deferring to the locals, who bicker (usually good-naturedly) about whether it will be Piggy's or L'Auberge, The House of Peking or L'Europa. Decision-making done with, the diners step beerily into the crisp, wintry night, and clamber into the steaming taxis that await them. Once arrived at the restaurant, a favourite ritual is to describe to the visitor the precise culinary incentives created by the Departmental dinner subsidy.

The Department's smooth sailing is aided, from year to year, by large complements of visitors. In their modest way, the locals often argue that the best thing about Kingston is leaving it, though if this were true, then – by some rational expectations lemma – replacements would

not be so easy to find. This year's crew of reinforcements was a memorable lot:

■ Droll, deferential, self-deprecating **John Driffill**, who said of the omnipresent, apparently omniscient David Webb: 'Would only he were shorter on the omnipresence and longer on the omniscience';

■ **Richard Smith**, he of the binary mood, now apparently deep in South-England gloom, now swept up by Cleese-ish hilarity;

■ **Roy Bailey**, publicly taciturn, secretly voluble, eternally considerate;

■ **Chris Heady**, red-headed, quizzical, emphatic, bemused;

■ The Men from Down Under: **Ben Hunt**, tall, blonde, with a white sport coat, a frenetic wit, and an accent thicker than the average Pom's skull; and **Bob Conlon**, cherubic of mien, devilish of humour, possessed of a thirst as big as the Outback itself: if the Australians one meets abroad are typical of those who stay behind, it's amazing anyone ever leaves the Land of Auz;

■ **Hugh (Is Za Right?) Neary**, insatiably inquisitive, encyclopaedically informed, doomed to disappointment in his choice of sporting teams;

■ **Dan Richards**, *philosophe*, epigrammist, repository of popular culture, a Mark Twain for the 20th-century;

■ And, of course, the incomparable **David Webb**, peripatetic, monologist extraordinaire, ranker of economists, Departments, and journals, keeper of flames, leader of teams. By the third week of November it appeared Webb had cornered England's academic job market, though after excruciating (for his friends) deliberation he spurned the London Business School, choosing instead to take up residence at the LSE, whence, we trust, he will continue to issue pronouncements on the state of the profession.

Nor can we forget the visitors' remarkable help-mates: Richard's **Assumpta**, stirrer of waters, dispenser of Jameson's, puckish, kindly; Bob's **Margaret**, humourist, card shark, Chinese cook, hostess supreme; Ben's **Stephanie**, staunch New Zealander, Clue champion, good-humoured island of sanity in a sea of silliness.

We visitors carry plentiful memories of Queen's with us as we go, and almost all are good: memories of purple-faced engineers and shaving-creamed cars; of 7am Sunday bagpipes announcing yet another Gaels' away victory; of Irish coffee in the Quiet Pub after cheering McGill's football team through the wind-driven sleet; of the undergraduate whose coveralls proudly announced his major as being *Theoretical Gynaecology*; of lying in the sun on the embankment at Fort Henry; of Clue games in which, against all odds, Webb's advanced methods triumphed yet again; of **Alice Enders** in full feminist flutter; of too much beer at Shaky's and too little sleep at weekends; of sunny Sunday brunches in the courtyard at Piggy's; of countless games of Up and Down the River; of **Allan Gregory**, energized, rustling up a party; of cookouts and barbecues and lunches on the run; of **Gordon Sparks**' comment at a macro seminar that his IBM PC handled simulations in about the time it took to go to the fridge and get half way through a cold beer; of Lake Ontario in all its moods, from glassy placidity to windswept anger; of Assumpta's birthday party, when we all drank too much and stayed up 'til dawn; of jogging on **Duncan MacDougall's** A-Team, the craggy leader barking out his commands; of **Gordon Fisher's** Christmas-party prance; of The Lovin' Spoonful's *Younger Girls*, anthem of the bachelor visitors; of **Ian Laxer** silently convulsed by some piece of humour only he has seen; of long, full evenings in the Quiet Pub, drinking, talking, savouring the company and the fun.

But most of all we take with us the memory of an extraordinarily hospitable community, hard at work, at peace with itself, the picture of what a university

department should be. Though happy now to be returning home to family and friends, in years to come we will think back with great fondness on the friends – and, in fact, the family – we made here.

William G. Watson

Richard Arnott spent the first half of 1983 on sabbatical and the second half on teaching leave and then returned to his teaching duties. He managed to tear himself away from Kingston for a month at Princeton University, a month as Visiting Professor at Tel-Aviv University, and another month on the global conference circuit. He continued his research on housing and moral hazard, and in addition to publishing 'Housing Quality, Maintenance and Rehabilitation' (with Russell Davidson and David Pines) in the *Review of Economic Studies*, received the 1983 Harry Johnson Prize for the best article published in the 1982 *Canadian Journal of Economics*. He also completed his term of office as Secretary Treasurer of the Canadian Economics Association in June 1984.

John Hartwick continued research into the economics of R & D. Papers on measurement issues for Canada and externalities in an industry model were developed. The paper 'Wealth Accumulation by Individuals in an Uncertain Environment' co-authored with P. Buckholtz, B. Madill and M. T. Wason was presented at the World Bank, Washington, D.C., and the Canadian Economics Association Annual Meetings in Vancouver in June. At the invitation of Japanese colleagues, the paper, 'Set-up Costs in the Theory of Exhaustible Resources' co-authored with M. C. Kemp and N. van Long was presented at the Pacific Regional Science Association Meetings in Tokyo in August. Impressions of this first visit to Japan appear in *The Canadian Forum*, April, 1984 in a piece, 'Tokyo Notebook'. John represented the Canadian Economics Association at the Council of the International Economics Association in San Sebastian, Spain and attended the World Congress immediately after in Madrid in September. With Nancy Olewiler, a contract was signed with Harper and Row, New York, to write a textbook, *Economics of Natural Resource Use* for delivery in 1984. This project has been gestating for four years. The articles, 'Learning About and Exploiting Exhaustible Resource Deposits of Uncertain Size', *Canadian Journal of Economics*, August

1983, and 'Some Results on First Order Stochastic Models and Estimation for Diffusion Approximation of the Multi-type Galton Watson Process', with P.Buckholtz, N.Nanthi and M.Wason, *Stochastic Analysis and Applications* were published.

Mike Abbott's paper 'Specification Tests of Quarterly Economic Models of Aggregate Strike Frequency in Canada' appeared in *Research in Labour Economics: A Research Annual*. He and Orley Ashenfelter are surveying recent evaluations of employment and training programs for the Ontario Economic Council and completing a textbook in labour economics. Together with Pradeep Kumar he is completing estimates of the effect of unionism on the components of labour compensation in Canadian Manufacturing.

With Mike Abbott as chairman and **Dave Backus** in charge of software development the computing committee has made great strides in implanting a wider range of computer software and a more user friendly system. Users can now link to an economics disk and get online information on programs and how to use them and on tracing errors. It is hoped to extend these improvements over the coming year especially by providing more accessible data.

In addition to this work Dave Backus has published 'Empirical Models of the Exchange Rate' and a review of Lucas's *Studies* in the *Canadian Journal of Economics*. He delivered papers at the CEA meetings of June 83, and at the University of Montreal and UQAM. His most recent work concerns credibility of macroeconomic policy and exchange rate dynamics in a model with staggered wage contracts.

The third member of the department computing committee, **James MacKinnon** had another busy year in 1983-84. He attended the 1983 European Summer Meeting of the Econometric Society in Pisa, Italy, where he and Russell Davidson presented their joint paper, 'Convenient Specification Tests for Logit and Probit Models', which was subsequently

accepted for publication by the *Journal of Econometrics*. James and Russell also presented joint papers at the Canadian Economics Association Meetings in Vancouver and at the North American Winter Meeting of the Econometric Society in San Francisco. Their paper 'Model Specification Tests Based on Artificial Linear Regressions' was accepted by the *International Economic Review*, while 'Testing the Specification of Multivariate Models in the Presence of Alternative Hypotheses' appeared in the *Journal of Econometrics*. Next year James will be chairman of the Senate Computing Committee.

Besides presenting papers at the conferences mentioned above, James gave seminars at the University of Montreal, the University of Western Ontario, the joint Harvard-M.I.T. Econometric Workshop, and Princeton University. In addition, he visited England with the aid of an SSHRCC grant, and gave papers at Oxford, Cambridge, the London School of Economics, the University of York, the University of Manchester, Southampton University, and several other places. His joint paper with Glenn Macdonald, 'A Convenient Way to Estimate Linear Regression Models with MA(1) Errors', was accepted by the *Canadian Journal of Economics*, and his joint paper with Ross Milbourne, 'Monetary Anticipations and the Demand for Money', appeared in the *Journal of Monetary Economics*. James also found time to serve on the committees to award the 1983 and 1984 Harry Johnson Prizes for the Canadian Economics Association. This prize is awarded for the best article to appear in the CJE in the previous year. For the second year in a row, the 1983 winner was a Queen's faculty member: **Richard Arnott**, for his paper 'The Structure of Multi-period Employment Contracts with Incomplete Insurance Markets'.

Russell Davidson continued work in both economics and physics. In Economics he has three papers forthcoming: 'Convenient Specification Tests for Logit and Probit Models' in the *Journal of Econometrics*, with J.G.MacKinnon, 'Spatial Aspects of Housing Quality, Density and Mainte-

nance' with R.Arnott and D.Pines, in the *Journal of Urban Economics*, and 'Model Specification Tests Based on Artificial Linear Regressions' with J.G.MacKinnon, in the *International Economic Review*.

Other papers with these coauthors have appeared since the last newsletter, 'Testing the Specification of Multivariate Models in the Presence of Alternative Hypotheses' with J.G.MacKinnon in the *Journal of Econometrics* and 'Housing Quality, Maintenance and Rehabilitation' with R.Arnott and D.Pines in the *Review of Economic Studies* (1983), 50, 67-494. As mentioned above papers coauthored with James MacKinnon were presented at the World Econometric Society Meetings in Pisa and at the North American Winter Meeting in San Francisco.

Changing hats, Russell was Research Associate at the Radiation Laboratory, University of Notre Dame, Indiana. His paper with J.J.Kozak, 'Exact Dynamics of a Model for a Three-level Quantum System Interacting with a Continuous Spectrum' was published in the *Journal of Mathematical Physics*.

Lorne Carmichael is on leave on a National Fellowship at the Hoover Institution Stanford University until August 1984. His article 'Reputation in the Labour Market' will appear in the *American Economic Review*. His article 'Does Rising Productivity Explain Seniority Rules for Layoffs?' appeared in the *American Economic Review* in December 1983. He was invited to participate in the summer 1983 institute of the National Bureau of Economic Research in Cambridge, Mass. He presented papers to the McMaster Labour Economics Conference, the Canadian Economic Theory Meetings, and a conference on 'Aggregate Implications of Price Setting and Contract Models' at the University of Iowa sponsored by the National Bureau of Economic Research.

Charles Beach carried on his major research project with S.F.Kaliski on Labour Market Behaviour in Canada. Two papers have been published so far, one given at the Vancouver CEA meetings, and two others are currently being writ-

ten. He has begun organizing and planning a textbook to be co-authored with Tony Shorrocks on *Income Distribution and Economic Inequality*. This is likely to be a several-year project. His paper 'Who Will Pay for Proposed Pension Reform?' has appeared in the Ontario Economic Council volume on Pension Reform. *Economic Inquiry* has published the paper 'Social Security and Aggregate Capital Accumulation Revisited' which he co-authored with Robin Boadway and J.O.Gibbons. He presented papers this year at the University of Alberta, Trent University and the Ontario Economic Council. He was also a member of the Research Advisory Group on Income Distribution and Economic Security for the MacDonald Royal Commission, the Advisory Research Team on Social Security for the Ontario Economic Council, and the National Bureau of Economic Research's Conference on Income and Wealth.

Two papers by **James Brander**, both with Barbara Spencer have appeared since the last newsletter. The paper 'Second Best Pricing of Publicly Produced Inputs: The Case of Downstream Imperfect Competition' appeared in the *Journal of Public Economics*, and 'Local Telephone Pricing: Two-Part Tariffs and Price Discrimination' in *Economic Analysis of Telecommunications Theory and Evidence* ed. by Courville et. al. (North Holland). Another paper with Barbara Spencer, 'Trade Warfare: Tariffs and Cartels' is forthcoming in the *Journal of International Economics* and they are continuing work together on international markets and labour relations, on a theory of foreign direct investment and on tacit collusion, free entry and welfare. A paper with Jon Eaton 'Product Line Rivalry' will appear in the *American Economic Review*. He is working on anticipated collusion and excess capacity with Rick Harris. He has resigned to join the Faculty of Commerce and Business Administration at UBC.

Robin Boadway wrote one book, *Welfare Economics* (with Neil Bruce) and revised two others, *Canadian Tax Policy* (with Harry Kitchen) and *Public Sector*

Economics (with David Wildasin). The following journal articles have appeared or are forthcoming: 'A General Proposition on the Design of a Neutral Business Tax', with Neil Bruce in the *Journal of Public Economics*, 'Social Security and Aggregate Capital Accumulation Revisited: Dynamic Simultaneous Estimates in a Wealth-Generation Model', with Charles Beach and J. Gibbons, in *Economic Inquiry*, and 'Taxation, Inflation and the Effective Marginal Tax Rate on Capital in Canada', with Neil Bruce and Jack Mintz, in *Canadian Journal of Economics*. He has written an article on Public Finance for the *Canadian Encyclopedia*. The following papers have also appeared since the last newsletter: 'The Role of Equalization Payments in the Canadian Federation', in W.J.Milne (ed.), *The Regional Economy of Canada: Environment, Economic Adjustment and Barriers to Interprovincial Trends*, Toronto: Institute for Policy Analysis: 'Efficiency, Equity and the Allocation of Resource Rents', with F.R.Flatters, in C.E.McLure and P.Mieszowski (eds.), *Fiscal Federalism and the Taxation of Natural Resources*, Lexington Press; and 'The Indexed Security Investment Plan' in N. Bruce (ed.), *Report on the Policy Forum on the Federal Budget of April 1983*, John Deutsch Memorial for the Study of Economic Policy. He is currently working on taxation and savings and on the tax treatment of the mining industries. If, by now, you are wondering if he is still Head of the department, he is.

Neil Bruce produced the first monograph in the new John Deutsch Institute Policy forum series, *Report on the Policy Forum on the Federal Budget of April 1983*, John Deutsch Memorial for the Study of Economic Policy, 1983 as outlined elsewhere in this Newsletter. His book *Welfare Economics* with Robin Boadway was published this year. He continued his work on government deficits; 'Fiscal Discipline and Rules for Controlling the Deficit' with D.Purvis appeared in *Deficits: How Big and How Bad*, Ontario Economic Council. Also, he and Purvis have recently completed a study to be published by the C.D. Howe Institute titled 'Evaluating the Defi-

cit: The Need for Budget Cuts'. His article 'Structural Changes in the Canadian Trade Balance' was published in *The Canadian Balance of Payments: Perspectives and Policies*, The Institute for Research on Public Policy. He co-authored 'Taxation, Inflation and the Effective Tax Rate of Capital in Canada' with R. Boadway and J. Mintz, in the *Canadian Journal of Economics* (1984). Four papers are forthcoming: 'A General Proposition on the Design of a Neutral Business Tax' with R. Boadway, in the *Journal of Public Economics*; *The Personal Income Tax: Implications for Saving, Investment & Pensions* with R.Boadway for the Ontario Economic Council; 'The Specification and Influence of Goods & Factor Markets in Open Economy Macroeconomic Models' with D. Purvis in Handbook of International Economics, North Holland and 'The Rationale for and the Design of the Corporation Income Tax', with Boadway and Mintz in *The Scandinavian Journal of Economics*. He is continuing to work on taxation, investment and saving.

Alan Green's monograph with **Ann Green**, *An Economic Study of Wages and Productivity in Ontario Metal Mining* is forthcoming in the Mineral Policy Studies (Ontario) series. He and Ann presented a paper based on the study at the Canadian Institute of Mining, Annual General Meeting in Winnipeg. At the CEA meetings in Vancouver he presented 'Productivity of Technological Change in the Canadian Railroad Sector, 1870-1930'. He is working on a large study (with John Baldwin) on the evolution of the Canadian manufacturing sector. He is continuing work on his Canadian economic history text. He is also reworking and extending national accounts estimates for the transportation and communications sector.

He has put in a lot of time on various administrative responsibilities this year. As noted in the Message from the head of the Department, he was chair of the Departmental Resource Allocation Committee which produced major reforms of the undergraduate program. He continued as chair of the Queen's Pension Board and as a member of the Senate Nominations

Committee. He was chair of the Graduate Council and a member of the principalship search committee. He has also been the QED liaison with the School of Business on the undergraduate and graduate programs.

Jon Harkness is on sabbatical leave at the University of Warwick. Before 'leaving' he presented his paper 'Optimal Exchange Intervention' at the CEA Vancouver meetings. For the *Canadian Journal of Economics* he completed reviews of *Rational Expectations* by Steven Sheffrin, of *A Rational Expectations Approach to Macro Econometrics* by F.A. Mishkin and *Macroeconomic Dynamics* by K. Najatani. He is working on internationally efficient capital markets and on optimally managed exchange rates with risk averse speculators.

This year **Steve Kaliski** was a member of the Statistics Canada Advisory Committee on Labour Statistics and of the Research Advisory Group on Labour of the Royal Commission on the Economic Union. For the Royal Society of Canada he served as a member of Council Academy II, and the Innis-Gerin Medal Committee. As a CEA representative, he was a member of the Board of Directors of the National Bureau of Economic Research and a member of the Assembly and of the Committee on Aid to Publications of the Social Sciences Federation of Canada. He was elected a Vice President of the CEA for 1984-85. At the CEA meetings in Vancouver he gave an invited paper reviewing the state of the art 'The Rise and Fall of the New Unemployment'. His paper 'Must Unemployment be so High?', a revised version of a portion of the CEA paper, will appear in *Canadian Public Policy*. He is continuing his research with Charles Beach on labour market behaviour in Canada. He is also continuing work on unemployment and macroeconomic policy in recession and recovery.

Donald Wood, currently on leave from the Department to serve as the first Director of the new School of Industrial Relations, reports a very successful first year

for the new multi-disciplinary master's degree program in Industrial Relations which involves the School of Industrial Relations, the Economics Department, and the faculties of Law and Business. The first year enrollment of 18 will move to the target enrollment figure of 30 for the academic year 1984-85. Of the 30 applicants accepted, the School is pleased that 16 are professionals from the private and public sectors of the world-of-work and that the overall mix - geographic, university, discipline, etc., - is well distributed.

As well as being Chairman and presenting papers at the I.R. Centre's 3 annual one-week seminars, he has been a key speaker at several public conferences across Canada during the past year: Ontario University Personnel Association; General Motors Canada ('Council of Supervisors and Invited Executives'); Saskatoon Personnel Association; Gulf Canada 'Environmental Assessment Conference'; Learned Societies - CIRRA (Chairman, Two Sessions); Kingston and District Personnel Association; Macdonald Royal Commission on Economic Union and Development Prospects for Canada: Symposium on Labour Management Cooperation; Canadian Medical Association ('Negotiations Conference').

On the publications front, he is again the Senior Co-Editor (with P. Kumar) and contributing author of the 1984 edition of the Centre's annual reference volume - 'The Current Industrial Relations Scene'. Most of his conference presentations were published in various proceedings and publications. Finally, he was a co-organizer (with David Smith and Stephan Kaliski of the Department and Pradeep Kumar of the I.R.C.) of a national conference on 'Canadian Labour Markets in the 1980's' which was jointly sponsored by the Industrial Relations Centre and the John Deutsch Memorial for the Study of Economic Policy. The sponsors of the Conference were especially pleased with the attendance and participation of the 96 senior level authorities from academia, industry, labour, and government from across Canada and internationally. The

formal research papers together with the comments of discussants and participants provided valuable material for the final proceedings published in book form by the Queen's I.R. Centre.

Gordon Fisher retired as Associate Editor of the *Journal of Econometrics* on 31 December 1983 having served continuously since the inception of the Journal in 1972. He continues to serve as a member of the editorial board of the *Canadian Journal of Economics*. He took over once again as Chair of Graduate Studies when Frank Flatters went on leave to Indonesia. During the year he had two papers appear in Australian journals, 'The Geometry of Specification Error' (with M. McAleer) in the *Australian Journal of Statistics* and 'A Note on Identifiability in the Linear Expenditure Family' in *Australian Economic Papers* (with M. McAleer and D. Whistler). He also presented 'A Guide to Testing Separate Regressors' to the Applied Econometrics Session at the CEA meetings in Vancouver.

Slobodan Djajic has been working on theoretical problems in the area of human capital, trade, and international migration. The results of his research have been reported in recent papers entitled 'Human Capital, Minimum Wage, and Unemployment: A Harris-Todaro Model of a Developed Open Economy', 'Skills and the Pattern of International Migration', 'International Migration Remittances and Welfare in a Dependent Economy', 'Minimum Wage, Unemployment and International Migration', and 'Illegal Immigration and Unemployment in a Harris-Todaro Model of International Labor Mobility'. In the area of exchange rate dynamics, his paper, 'Currency Management and Economic Stability' has been published in the June 1984 issue of the *Economic Journal*. He has also completed a paper 'Dynamics of Reserve Use under Managed Floating'. On the topic of exhaustible resources and trade, his paper on 'Exhaustible Resources and the Dynamics of Comparative Advantage' will appear in the *Journal of International Economics* later this year.

Richard Harris has been giving governments a lot of advice this year. His monograph for the Ontario Economic Council, *Trade, Industrial Policy and Canadian Manufacturing* was released this spring. He is a member of the Department of Regional and Industrial Expansion, Consultative Committee of Experts on Industrial Policy and a consultant for CMHC. He is also a member of the Research Advisory Groups on Trade Policy and on Industrial Structure of the Royal Commission on the Economic Union. He was on full time leave from Queen's, September to December, 1983 for a special research project on 'Industrial Strategy' to the Royal Commission. He gave seminars to the Ontario Economic Council and to the Royal Commission on the Economic Union. He also accomplished a lot of other things this year. His paper 'Imperfect Competition, Scale Economics and Applied General Equilibrium Analysis of Small Open Economies', is scheduled for publication in the *American Economic Review*. He has several papers in Conference volumes, 'Adjustment, Theory and Policy' with D.Purvis and F.Lewis in the Second John Deutsch Roundtable Volume, 'Some Observations on a Canada-U.S. Free Trade Arrangements' in *Proceedings of a Royal Commission Seminar on Canada-U.S. Free Trade*, J.Whalley (ed.) and 'Contestable Markets and Contingent Protection' in *Proceedings of a Conference on Canada-U.S. Economic Relations*, Institute for Research on Public Policy and University of Michigan. He organized the first policy forum of the John Deutsch Institute and produced the *Report of the Policy Forum on Industrial Strategy*. He also presented papers at the Canadian Economic Theory Meetings, Concordia University and at a conference on Canada-U.S. Relations organized by the Institute for Research on Public Policy, the Ontario Economic Council and the University of Michigan. He is a member of the executive council of the CEA.

Frank Lewis has been studying the demand for life insurance and he continues his work on railway building in Canada.

'The Timing of Railway Construction on the Canadian Prairies' (with David Robinson) appeared in the *Canadian Journal of Economics* (May 1984), and forthcoming is 'Market Adjustment and Government Policy' (with R.Harris and D.Purvis) in *Economic Adjustment and Government Policy*, John Deutsch Roundtable II. He also reviewed two books for the *Journal of Economic History*: David Breen's *The Canadian Prairie West and the Ranching Frontier* and Lloyd Mercer's *Railroads and Land Grant Policy: A Study in Government Intervention*.

Mac Urquhart presented his paper 'New Estimates of Gross National Product, Canada; 1870 to 1926: Some Implications for Canadian Development' at the Conference on Research in Income and Wealth, National Bureau of Economic Research, meeting of March 1984 in Williamsburg, Virginia. Next year he will be on leave for the fall term.

Nancy Olewiler spent the year on Sabbatical at MIT and in Australia. She presented her paper 'Government Cartels in Mining: Saskatchewan Potash' to the American Institute of Mining Engineering and at the CEA meetings in Vancouver. At the same meetings she gave another paper, 'Natural Gas Supply in Alberta'. Together with Frank Flatters she consulted for the Harvard Institute for International Development for a project in Indonesia. She is writing a book with John Hartwick, *The Economics of Natural Resource Use*. She is continuing work on both potash and natural gas policies.

Bentley MacLeod completed his Ph.D. thesis, *Perspectives on Oligopoly Theory* this year. He received a fellowship from the Institut des Sciences Economiques at Louvain la Neuve last year and returned there for this summer to continue work with Louis Gevers on taxation as a game between governments and firms. He has an SSHRCC post-doctoral fellowship for next year when he will be doing further work on oligopoly theory and imperfect competition. He has already presented

two papers in this area 'On the Non-existence of Equilibria in Differentiated Product Models' at the Delta Meetings in Dijon and 'On Adjustment Costs and the Stability of Equilibria' at the Econometric Society Meetings in Pisa. As a change of pace he is working with T.Thurton on an analysis of FED monetary policy, with Alice Enders on the North American Fur Trade 1804-1821 and with Steven Coate on existence of equilibria in a poor economy.

John Baldwin has been busy over the last year, working with Paul Gorecki at the Economic Council, on a series of papers that examine the adjustment success that has resulted from increased trade liberalization over the last decade. This has resulted in the following E.C.C. discussion papers: 'Entry and Exit to the Canadian Manufacturing Sector, 1970-79'; 'Trade, Tariffs and Relative Plant Scale in Canadian Manufacturing Industries, 1970-79'; 'The Relationship Between Plant Scale and Product Diversity in Canadian Manufacturing Industries'; 'Trade, Tariffs, Product Diversity and the Length of the Productive Run in Canadian Manufacturing Industries: 1970-1979'. Further papers about to be released are 'Imports, Secondary Output, Price-Cost Margins and Measures of Concentration', and 'The Political Economy of the Canadian Tariff Structure, 1966-1979'. All these papers will eventually be pulled together into a larger study of the effect of trade liberalization on Canadian productivity. Discussion of the work is found elsewhere in this newsletter.

Other research being done includes a major study (being done jointly with Alan Green) on the evaluation of the Canadian Manufacturing Sector between 1890 and 1930. The census records of Canada and the United States are being mounted on tape for eventual analysis of cross-country productivity differences at the turn of the century and the effect of the National Policy on the manufacturing sector. Other work includes a study of the effect of a lack of protection for property rights in Canada on the evaluation of public enterprise, an examination of the merger pro-

cess, and the extent of voluntary regulation that relies upon imperfect market competition in Canada. The latter first emerged as a paper (jointly authored with G.Lermer) on 'The Political Economy of Rent-seeking by Governments' given at a Transfer Pricing Conference at Dalhousie University.

During the last year, he has been a member of the Industrial Structure Research Group for the Royal Commission on the Economic Union, and he has given seminars to the International Trade Groups as well as to the Industrial Structure Research Group of the Royal Commission. He has also presented papers at the Canadian-Hungarian Roundtable at Queen's, to the Transfer Pricing Conference at Dalhousie and to the Conference on Quantitative Methods in Canadian Economic History. As a member of the Senate Library Committee, he has actively encouraged rejuvenation of the Government Documents unit – an area of particular concern to social scientists in the University.

John and his wife Adrienne are presently expecting the second addition to the family! Check the birth column for any late-breaking news.

Dan Usher is continuing work on production and predation. Two papers in this series, 'Production and Predation I: The Sources of Inefficiency' and 'II the Welfare Economics of Theft' have been circulated as Institute for Economic Research Papers 534 and 535. Obviously claims in last year's newsletter that the paper on theft had been stolen were greatly exaggerated. On his sabbatical next year he hopes to develop the ideas in these papers as a means of identifying the proper lines of division of the public and private sectors of the economy. His paper 'Problems in the Valuation of Life' will appear in *Social Philosophy and Policy*. *The Journal of Macro Economics* will publish 'Elephantine Theory of Depressions'. His 'Comment' on 'Disability, Income Status and Uncertainty' by R.Haveman and R.Wolfe will appear in the NBER volume on *Income and Wealth*. His book *The Economic*

Prerequisite to Democracy was the subject of a session at the American Political Science Association subgroup on political economy. Last spring there was a two day meeting at Queen's on this book and Radoslav Selucky's *Marxism Socialism and Wealth*. Dan participated in both events. He has prepared an essay for the MacDonald Commission on 'The Growth of the Public Sector in Canada'. He reviewed the *Democratic Economic Policy* by Bruno S.Frey for *The Manchester School*. At the Conference on Philosophy, Economics and Justice held at the Philosophy Department at Waterloo, he presented his paper entitled: 'Problems in the Valuation of Life for Decision-Making in the Public Sector'.

Martin Prachowny's book *Macroeconomic Analysis for Small Open Economies* was published this year by Oxford University Press. He is now writing (or rather word processing and text editing) *Money in the Macroeconomy* with ten of twelve chapters completed.

Gordon Sparks organized a policy forum on Third World Debt and the International Financial System held in December 1983. He is producing a rapporteur's report for release as part of the Policy Forum Series of the John Deutsch Institute for the Study of Economic Policy. He is also working on a research study 'Theory and Practise of Monetary Policy in Canada 1945-82', for the Royal Commission on the Economic Union and Development Prospects for Canada. He is also doing research on an empirical rational expectations model of the Canadian exchange rate.

Tom McCurdy is on an SSHRCC post-doctoral fellowship from September 1983 to August 1984. He is working on the macro-employment effects of alternative diffusion scenarios for microelectronic technology using a multisectoral empirical study for Canada, and on Keynes-Wicksell model of growth and non-marketclearing. He also has research projects underway on speculation and structural change in

the foreign exchange market and on Walrasian/Marshallian non-tatonnement dynamics. He is preparing notes on the indeterminacy and non-uniqueness issues. He has produced the following papers in the last year, 'Vector Autoregressive Approximations and Behavioural Models' and 'Testing the Unbiasedness Hypothesis in the Forward Foreign Exchange Market, Specification Analysis' both with Allan Gregory and 'An Efficiency Frontier Model for Analysing Macroeconomic Implications of Structural Shocks'.

Marvin McInnis continues his work with the Historical Atlas of Canada Project for which he has been since its inception, a member of the Board of Editors of Volume III of the Atlas, dealing with the twentieth century. He is also contributing several plates on agricultural and demographic topics to that volume. In addition he is contributing both agricultural and demographic plates to Volume II of the Atlas. Research on that massive project will be wound up this year and a step closer to publication will be taken. An outgrowth of Marvin's work on the Atlas project is a sideline project on the use of computer-drawn maps to produce an atlas of Canadian agricultural development, utilizing a lot of the research done for the Historical Atlas Project that would not find its way onto maps in the Atlas volumes themselves. For this additional project an SSHRC grant has been awarded that, among other things, provides for the addition of a digital plotter to the department's complement of equipment.

Work on Canadian agricultural history takes up a large part of the time Marvin is able to devote to research. This past year he has been vigorously exploiting the sample of farms he assembled from the manuscripts of the 1861 census. This work with the Canada West (i.e. Ontario) Farm Sample has so far resulted in four papers. A long paper describing the sample and the main results obtained from it is in the process of being redrafted and polished up for publication. A paper on 'Marketable Surpluses in Ontario Agriculture, 1861', was read at the October

1983 meetings of the Social Science History Association in Washington, D.C. and will be published in the journal *Social Science History*. 'The Size Structure of Farms in Canada West, 1861', was presented to a conference on Agrarian Structures and Economic Performance in the Nineteenth Century in Montreal in May, 1984. 'The School Attendance of Farm Children, Canada West, 1861', written in collaboration with Heather Tremble, is now being revised for publication. How is that for multiple cropping?

Other work on Canadian agricultural development has led to a study on 'Output and Productivity Change in Canadian Agriculture, 1867-1927', a paper prepared for presentation to a National Bureau of Economic Research Conference on Research in Income and Wealth on Long Run Trends in American Economic Growth at Williamsburg, Virginia in March, 1984. All of this work on agriculture has led to a critique of the staples framework applied to wheat in nineteenth century Upper Canada. That paper was first tried out on a small conference of Canadian Economic historians assembled at Wilfrid Laurier University in Waterloo in March and then was read before the annual conference of the Canadian Historical Association in Guelph in June.

Professor McInnis is still having a few things to say about farming in French Canada. He gave some comments on 'The Economic Consequences of the Conquest', at a roundtable discussion on 'The Conquest of Canada and its Consequences' at the annual meeting of the French Colonial Historical Society, held in Ottawa. Then at a conference on Canadian Rural History in Victoria in February, 1984, he gave a paper on 'A Further Consideration of the Agriculture of Lower Canada'.

Professor McInnis was honoured this past year by election to the position of vice president of the Economic History Association. He is the only Canadian to have been elected to the executive of that American organization since Harold Innis of Toronto was its second president in 1942. In April and May, Marvin gave a total of eleven lectures on an invited tour

of five universities in Sweden. At the University of Uppsala he and Mrs. McInnis were honoured by being invited to join the official party of the Rector at the annual spring ceremony of putting on of caps. They stood on the balcony of the old university library and watched 20,000 Uppsala students put on their student caps and run down into the city. Kingston should be more thankful of its modest treatment by Queen's students. Just before his lecture tour of Sweden, Marvin participated in a meeting in Bern, Switzerland to plan the programme of the World Congress of Economic History to be held in that city in August of 1986.

Marvin has been Chairman of Undergraduate Studies this past year - a heavy job in a year with a record number of honours graduates and an extensive reorganization of the undergraduate curriculum. He continues as undergraduate chairman for the coming year, after which he looks forward to the proposal of a sabbatical leave.

Ross Milbourne presented 'Savings Accounts as International Assets Under Uncertainty' at the Econometric Society Meetings in Pisa, Italy in September 1983. His paper with James MacKinnon 'Monetary Anticipations and the Demand for Money' appeared in the *Journal of Monetary Economics* in March 1984, and 'A Comparison of Australian Money Demand Equations' will appear in *Australian Economic Papers*. His review of David Laidler's *Monetarist Perspectives* appeared in the *Canadian Journal of Economics* in May. He is currently writing papers on the effects of financial innovation on monetary aggregates, and working with Hafiz Akhand on credit cards in monetary equilibrium.

Klaus Stegemann presented his paper 'The Social Costs of Monopoly in an Open Economy' at the 10th annual conference of the European Association for Research in Industrial Economics (EARIE) in Bergen, Norway. This paper as well as a note on 'Trade Policy to Promote Entry with Scale Economies: Orthodoxy Re-

stored' will appear in the *Canadian Journal of Economics*. His article on 'Cross Elasticity and the Relevant Market' published ten years ago has been included in the *Journal of Reprints for Antitrust Law and Economics*. This May, Klaus organized a policy forum for the John Deutsch Memorial on 'Special Import Measures Legislation' (the new Canadian anti-dumping law) and will produce a conference report for the Policy Forum Series. He has been a consultant on anti-dumping matters and also participated in the MacDonald process-if only as a member of a research advisory group (rag) and as a referee for several papers. He again carried a heavy load of administrative responsibilities as Chairman of the Curriculum Committee of the Faculty and coordinator for the largest fourth-year honours class we have ever had: 76 thesis writing majors and some twenty medials. Last summer, Klaus received a substantial SSHRCC research grant which included one of the last few release time stipends that the SSHRCC has awarded. He is looking forward to spending the Fall Term at Harvard to participate in Dick Caves' workshop on industrial organization and international trade and to continue his research on anti-dumping policy and related matters.

Jack Mintz was on the road again this year. At the Vancouver Canadian Economics Association meetings he presented two papers: 'Shadow Pricing of Capital and Labour in an Economy with Unemployed Labour' written with M. Marchand and P. Pestieau (soon to appear in the *European Economic Review*) and 'Taxation Inflation and the Effective Marginal Tax Rate on Capital in Canada' written with R. Boadway and N. Bruce (published in the *Canadian Journal of Economics* February 1984). In the summer he attended the Taxation Workshop at the National Bureau of Economic Research where he presented 'Tax Competition Amongst Members of a Federation' (Queen's Discussion Paper #558). He also attended the Ontario Economic Council's Conference on *Pension Reform* and his remarks on 'The Effect of Pension Funding on Investment Savings

and Financial Intermediation' was published in the conference volume (1984). Mintz also participated in the John Deutsch Memorial Policy Forum on the Federal Budget of 1983 edited by N. Bruce and remarks were published in the Policy Forum Series. In the winter, Mintz presented 'The User Cost of Capital with Imperfect Loss Offset Taxes' at the Econometric Society Meetings in San Francisco and was invited by the Intercollegiate Centre for Management Science to visit for a month, CORE Louvain-la-Neuve, Belgium for both work and lectures. In addition to the publications cited above, he has published with N. Bruce and R. Boadway 'The Corporate Tax - Should it be Reformed or Abolished' issued in the Conference Report by the Canadian Tax Foundation and 'The Rationale for the Design of the Corporate Tax' in the *Scandinavian Journal of Economics*.

Douglas Purvis became Director of the John Deutsch Institute last fall. As the section on the Institute explains in more detail, this position is increasingly demanding as more conferences and policy forums take place, two series of publications are inaugurated and additional sources of funds are sought. (This newsletter does not use vulgar terms like 'begging'). Doug is continuing to act as editor of the John Deutsch Roundtables on Economic Policy. We hope the publication date of the second volume, *Economic Adjustment and Public Policy*, will beat the issue of this newsletter, but it will be close. Doug has written the Introduction and a paper with Rick Harris and Frank Lewis 'Market Adjustment and Public Policy' for this volume. The third volume, *Long-run Productivity and Growth* will be based on the Roundtable to be held in July. It will be coedited by Alison Morgan.

Doug wrote two papers on fiscal policy with Neil Bruce, 'Fiscal Policy and the Great Recession' in *Canadian Public Policy* and 'Fiscal Restraint and Rules for controlling the Deficit: Some Unpleasant Keynesian Arithmetic' in *Deficits: How Big and How Bad?* edited by D.W. Conklin and T.J. Courchene for the Ontario Economic Council.

The seventh American edition of *Economics* with R.G. Lipsey and P.O. Steiner was published this year. The fifth Canadian edition will come out next winter.

Doug continued as a member of the Economic Advisory Panel, Department of Finance. He worked for the MacDonald Royal Commission and he wrote six columns for the *Financial Post* with R.G. Lipsey. He was also Book Review Editor of the Canadian Economics Association.

David C. Smith, in case you missed the news somehow, is to be the next Principal of Queen's. The installation will take place on 26 October 1984. He has spent a large part of his time this year preparing for this position. He has held meetings with over sixty departments and groups in the University to find out their problems and concerns, as well as becoming familiar with the central university administration. Most of the rest of his time has been spent developing the research program for the Royal Commission on the Economic Union and Development Prospects for Canada of which he is Research Director (Economics). As described in *Research for the Commission on Canada's Future, Progress Report* research studies in economics are underway in seven major sections: Macroeconomics, Federalism and the Economic Union, Industrial Structure, International Trade, Income Distribution and Economic Security, Labour Markets and Labour Relations, and, to cover issues not easily integrated into other sections and provide a broader perspective and integration, Social and Economic Ideas and Issues.

H. Scott Gordon has been given a joint appointment in the Department of Economics and in the Department of History and Philosophy of Science at the University of Indiana. He is spending most of his research time on his book, *An Introduction to the History and Philosophy of Social Science*. He was the Arthur Anderson Visiting Lecturer at St. Olaf's College in Northfield, Minnesota. During a three day visit he gave two seminars and addressed a convocation. As readers will remember, he also holds a joint appoint-

ment with Queen's and was here this year from May to September.

Rod Fraser has recently been appointed Director of Research of the Royal Commission of Inquiry on the Pharmaceutical Industry, which was established in April 1984. He is also Dean of the Faculty of Arts and Science. As is the tradition at Queen's, he continues his teaching. This year he will be giving a new seminar course for medial students on Problems of Canadian Microeconomic Policy, which was established as part of the revisions to the undergraduate curriculum.

QED List of Lists

Special Awards, Honours and Appointments

Richard Arnott	1983 Harry Johnson Prize for best article in the Canadian Journal of Economics 1984
Charles Beach	Member of NBER Conference on Income and Wealth
Lorne Carmichael	National Fellowship, Hoover Institution
Rod Fraser	Dean of Arts and Science, Queen's University
Steve Kaliski	Vice President, Canadian Economics Association
Bentley MacLeod	Fellowship, Institute des Sciences Economiques Université Catholique de Louvain 1983
Marvin McInnis	Vice President, Economic History Association
Jack Mintz	Invited Research Professor Intercollegiate Centre for Management Science, Belgium
David C. Smith	Principal, Queen's University

QED Athletic and Artistic Achievements

Graduate Students	Winners of the Graduate Student Society Summer Soccer League Winners of the Graduate Student Society Summer Soccer League Round Robin Tournament
Robin Boadway	Trip by bicycle from Ontario to PEI, Summer 1983 Bicycle from Kingston to Guelph, Spring 1984
Department Joggers	Estimated distance per week - 476 km
Frank Lewis	Songwriter extraordinaire for Christmas skits
Sharon Clark	MVP pitcher, Empire Life Kingston Bankers League, Softball, 1983
Leslie Owen	Aspiring to 1988 Olympic Equestrian (Dressage) Team (having been omitted in '76, '80 and '84)
Klaus Stegemann	Production of slides of European architecture for the Department of Art History Maintenance of Rideau Trail (with occasional assistance of John Hartwick). Ask Klaus for advice on the most worthwhile section of the trail (applicants will be invited to join the Rideau Trail Association)
John Hartwick	Chairman, Senate Committee on Fine Arts and Public Lectures
Russell Davidson	Chairman, Senate Subcommittee on Performing Arts
Gordon Sparks	Publication of DEHL (Department of Economics Hockey League) Newsletter, publication of which is as eagerly awaited in the Department as Golden Words on Campus
Michelle Perrette	First women drafted to DEHL
Dot MacKenzie	Tahitian and Hawaiian dancing and Costume Design
Martin Prachowny	*** (Cuisine Française)
Russell Davidson	Baritone 'The Messiah' December 1983
Faculty	Winners of Faculty-Grad Student Baseball Game 1983 (wait 'til 1984)
Charles Beach	Organizer of Faculty Christmas skit

Undergraduate Honours

Medal in Economics David A. Green
Chancellor CA Dunning Prizes Medallist David A. Green Best B.A. Thesis William G. Gilliland
Prince of Wales Prize Leslie Milton
Edith Whyte Prize David A. Green (first recipient)

Recent Ph.D. Recipients

1983 - OCTOBER Hwang, Hong Three essays on international trade with imperfect competition. Supervisors: R.J. Arnott, J.R. Baldwin and J.A. Brander
Novin, Farid A Bayesian choice theoretic approach to the dynamic adjustment of prices: a study of price behaviour of Canadian manufacturing industries. Supervisors: D.K. Backus and J. Harkness
Owusu-Gyapong, Anthony The determinants of strike activity in Canadian manufacturing: an interindustry analysis using panel data. Supervisors: M.G. Abbott and D.C. Smith
Yannelis, Demetrius Constantine Essays on disequilibrium dynamics. Supervisors: R.G. Harris and T.H. McCurdy
1984 - MAY Robertson, Alastair R. Price setting and quantity adjustment in atomistic markets. Supervisor: R.G. Lipsey
Skulmis, Bill Unemployment Spell Durations: A Closer Look. Supervisor: C.M. Beach

QED Book Boom

PUBLISHED

Boadway, R.W. and Bruce, N. *Welfare Economics*, Basil Blackwell (1984)

Boadway, R.W. *Canadian Tax Policy*, Revised Edition (with Harry Kitchen), Canadian Tax Foundation (1984)

Boadway, R.W. and Wildasin, D.E. *Public Sector Economics*, Second Edition, Little-Brown & Co. (1984)

Bruce, N. *Taxation in Simple General Equilibrium Models*, Garland (1984)

Prachowny, M. *Macroeconomic Analysis for Small Open Economies*, Oxford University Press, (1984)

Purvis, D.D. *Economics* 7th edition, (with R.G.Lipsey and P.O.Steiner), Harper and Row (1984)

IN PROGRESS

Abbott, M.J. *Labour Economics* (with Orley Ashenfelter)

Beach, C.M. and Shorrocks, A. *Income Distribution and Labour Inequality*

Hartwick, J.M. and Olewiler, N. *Economics of Natural Resource Use* Harper and Row

Gordon, H.S. *An Introduction to the History and Philosophy of Social Science*

Green, A.G. *Canadian Economic History* Methuen

Prachowny, M. *Money in the Macroeconomy*

Purvis, D.D. *Economics* 5th Canadian Edition, (with R.G.Lipsey and P.O.Steiner), Harper and Row.

QED Baby Boom

To Susan Hara and Lorne Carmichael, a daughter, Rayna Nicole, 5 September 1983

To Donna Lounsbury and Frank Lewis, a daughter, Michele Suzanne, 5 June 1984, 8lbs, 11oz.

To Adrienne and John Baldwin, a son, John Baldwin, 23 June 1984, 8lbs.

To Rosamund Woodhouse and Tom McCurdy, a daughter, Bronwen Rosamund, 2 August 1984.

Marriages in the Department

Patricia A.Flührer to Daniel R.Evans, 25 March 1983.

Forthcoming

Sharon F.Clark to William L.Sullivan, 18 August 1984.

EDITOR Alison Morgan

SECRETARIAL Patti Evans

GRAPHIC DESIGN Queen's Graphic Design Unit