



# **Economic Theory, Welfare and the State**

**Edited by**

**Athanasios Asimakopulos, Robert D. Cairns  
and Christopher Green**

# **Economic Theory, Welfare and the State**

**Essays in Honour of John C. Weldon**

Edited by

**Athanasios Asimakopulos**

*William Dow Professor of Political Economy  
McGill University*

**Robert D. Cairns**

*Associate Professor of Economics  
McGill University*

and

**Christopher Green**

*Professor of Economics  
McGill University*

**M**  
MACMILLAN

© Athanasios Asimakopulos, Robert D. Cairns and  
Christopher Green 1990

All rights reserved. No reproduction, copy or transmission  
of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied  
or transmitted save with written permission or in accordance  
with the provisions of the Copyright, Designs and Patents Act  
1988, or under the terms of any licence permitting limited  
copying issued by the Copyright Licensing Agency,  
33-4 Alfred Place, London WC1E 7DP.

Any person who does any unauthorised act in relation to  
this publication may be liable to criminal prosecution and  
civil claims for damages.

First published 1990

Published by  
THE MACMILLAN PRESS LTD  
Houndmills, Basingstoke, Hampshire RG21 2XS  
and London  
Companies and representatives  
throughout the world

Printed in Great Britain by  
Billing & Sons Ltd, Worcester

British Library Cataloguing in Publication Data  
Economic theory, welfare and the state: essays in honour of  
John C. Weldon.

1. Economics, History — Sociological perspectives  
I. Asimakopulos, Athanasios, 1930– II. Cairns, Robert D.  
III. Green, Christopher IV. Weldon, John C.  
306.3'09  
ISBN 0-333-49432-6

# Preface

Jack Weldon had superb analytical ability, and a deep and abiding interest in economic, social, and political problems. This collection of papers, written to honour his memory by a former teacher, his fellow students, colleagues and former students, gives some idea of the wide range of his professional interests.

It is these interests that provide a unifying theme to the papers in this collection. During the last twelve years of his life, Weldon concentrated on the history of economic thought, and at the time of his death he was beginning to edit for publication over 2000 pages of lecture notes he had prepared. It is thus appropriate that the papers by Boulding (from whom, incidentally, Weldon took a course in the history of economic thought) and Usher deal with this area. Rosenbluth's paper, with its useful examination of possible areas of conflict between group interests, and individual self-interest, would have been much appreciated by Weldon. The paper by Dales presents a neat blend of economic history and economic theory that sheds a critical light on the Canadian government's policy of settling the prairies with the provision of land grants. Rowley's critical analysis of rational expectations models and their use in econometrics, is one in a series of papers that Weldon followed with great interest. Rymes's paper, with its examination of the reasons why money should be treated as a public good, is a development of an approach to money advocated by Weldon. Two papers, one by Barber and the other by Schwartzman, deal with the problem of maintaining satisfactory levels of employment – a constant theme in Weldon's writings and comments on public policy. The two contributions to international trade theory by Chipman, and Kemp and Yabuuchi are examples of economic theory of high order that also provide useful insights on practical matters. Then finally, there are three papers, by Ascah and Asimakopulos, Burbidge, and Howitt, that examine aspects of public pensions, one of Weldon's major research interests.

We are very grateful to Marika Asimakopulos for undertaking the arduous task of preparing the index for this book.

ATHANASIOS ASIMAKOPOULOS  
ROBERT D. CAIRNS  
CHRISTOPHER GREEN

# Notes on the Contributors

**Louis Ascah** is Professor of Economics at the University of Sherbrooke, Sherbrooke, Canada.

**Athanasios Asimakopulos** is Dow Professor of Political Economy at McGill University, Montreal, Canada.

**Clarence Lyle Barber** is Professor Emeritus at University of Manitoba, Canada.

**Kenneth E. Boulding** is Distinguished Professor of Economics, Emeritus, Research Associate and Project Director of the Institute of Behavioural Science, University of Colorado, Boulder, USA.

**John Burbidge** is Professor of Economics at McMaster University, Hamilton, Canada.

**Robert D. Cairns** is Associate Professor of Economics at McGill University, Montreal, Canada.

**John S. Chipman** is Professor of Economics at University of Minnesota, Minneapolis, USA.

**John H. Dales** is Professor Emeritus at University of Toronto, Canada.

**Christopher Green** is Professor of Economics at McGill University, Montreal, Canada.

**Peter Howitt** is Professor of Economics at University of Western Ontario, London, Canada.

**Murray C. Kemp** is Professor of Economics at University of New South Wales, Kensington, Australia.

**Gideon Rosenbluth** is Professor Emeritus at University of British Columbia, Vancouver, Canada.

**Robin Rowley** is Professor of Economics at McGill University, Montreal, Canada.

**Thomas K. Rymes** is Professor of Economics at Carleton University, Ottawa, Canada.

**David Schwartzman** is Professor of Economics at New School for Social Research, New York, USA.

**Dan Usher** is Professor of Economics at Queen's University, Kingston, Canada.

**Shigemi Yabuuchi** is Professor of Economics at Aichi University, Aichi, Japan.

# John C. Weldon (1922–87): An Appreciation

Jack Weldon's death in February 1987 deprived McGill's Department of Economics of its outstanding intellect. Lost to older colleagues and a new generation of department members alike are Weldon's incisive and inquiring mind, his encyclopedic knowledge, his thoughtful comments on his colleagues' written work, his dedication to the Department's eclectic traditions which he did so much to develop, and the engaging sense of humour which could melt friend and foe alike. He is missed!

John C. Weldon was born in Magpie Mine, Ontario. However, there were family roots in the Maritimes. His father came from Saint John, New Brunswick, and briefly attended McGill before moving on to the mining country of Ontario. The most prestigious medal given by the Dalhousie Law School Alumni Association is the Weldon Award, named after the Law School's first Dean (1883–1914), Richard Chapman Weldon, a great-uncle of Jack.

Early in his life, Weldon's family moved to Montreal, where he grew up in the working-class East End. He attended the academically prestigious High School of Montreal. In 1939, Weldon enrolled at McGill University to study mathematics and physics, but the Second World War intervened. In 1941, at the age of 19, Weldon signed up 'for the duration', joining the RCAF. On his return to Montreal in 1945, he re-entered McGill, but switched from the physical sciences to economics. Earl Beach, one of Weldon's early teachers and later a colleague, said that his intellectual brilliance was immediately apparent. It was the beginning of a notable and at times turbulent career, whose outstanding characteristic was the oral tradition that Jack built.

Weldon graduated in 1947 and immediately began graduate studies at McGill, supported by an Allen Oliver Fellowship. In 1948–9, he attended Columbia University on a fellowship, returning to McGill as a lecturer in the fall of 1949, and to finish his doctorate. His dissertation, completed in 1952, for McGill, examined the role of entrepreneurship in theories of income distribution. It is of interest that although Weldon's writing and teaching ranged over many different subjects, mostly theoretical, his last published paper re-

turned to his beginnings. This paper, entitled 'The Classical Theory of Distribution', was described by a reviewer (*Economic Journal*, September 1988) as the 'jewel in the crown' of a volume, *Theories of Income Distribution*, every chapter of which contains 'a first class piece of work'.

Weldon's academic specialisation was in economic theory, and he was particularly interested in the logical foundations of theoretical analysis. These interests are partially reflected in published papers on the multi-product firm (1948), utility functions (1950), social welfare functions (1952), and public goods (1966). Much of Jack's work was what might be described as 'difficult' theory. His chief concern was the behaviour of individuals as part of a group (society) making time-specific, sometimes intergenerational, decisions. Social welfare functions, their significance, and how they could be conceptualised in an historical context as the corpus of society changed, with one set of generations trying to affect the actions of succeeding generations, was an ongoing theme in Weldon's research. This was extended to a consideration of the economic logic of saving, which made use of insights he had obtained in his treatment of intergenerational transfers and public pensions. The subject of public pensions, on which he wrote or jointly authored several papers, provided a bridge between Weldon's interest in the logical foundations of economic theory, and that other overriding theme in Jack's work and life, the very real economic and social concerns of humanity. (A list of Weldon's publications appears at the end of this essay.)

Weldon's rise through the ranks, from lecturer to full professor, was rapid. On his promotion to full professor in 1962, he was immediately named to the vacant Dow Chair of Political Economy, which he held until his death. Weldon's rise to prominence within McGill was paralleled by the high regard of his fellow economists in Canada. In 1975, Weldon became President of the Canadian Economics Association, the same year he was elected to the Royal Society of Canada. The citation, which accompanied his election to the Royal Society, stated in part:

As a theorist, his insistence on rigour and curiosity about the basis of the theoretical edifice of economics have led him, through his career, into an examination of the logical foundations of economics. This continuing interest has resulted in a number of most perceptive papers on the frontiers of the discipline. Professor Weldon's approach to applied work has been pragmatic. His grasp



of the foundations of the discipline enables him to reduce the issues involved in particular problems to their essentials and thus cut to the heart of the matter. As a major addition to his written work, Professor Weldon has been most effective as a teacher in preparing his students for their own later work in teaching and research.

Jack Weldon's entire academic career was spent at McGill. His intellectual qualities and his genuine concern for students and colleagues made him a natural leader. He was head of the economics section of the Department of Economics and Political Science before it split into separate departments in 1969. He was the obvious and clear choice as the first chairman of the new Department of Economics. In 1970, he began a two-year stint in the demanding post of Secretary for Planning to the Planning and Priorities Committee of the Manitoba cabinet, during the early years of Ed Schreyer's premiership. Weldon returned to McGill in 1972 and served for another two years as chairman of the Department of Economics. Despite growing administrative burdens and a door that was always open to his colleagues, Jack continued to maintain a full teaching load.

It was as a teacher that Weldon left his greatest imprint. Generations of students, some of whom went on to become leading economists, remember him as having had a profound impact on their intellectual development. One of them, now an eminent economist, has written: 'With the exception of Milton Friedman, Jack was the best teacher I ever had, and he probably had the greater influence upon me.'

As a teacher, Weldon was a hard taskmaster, but the care he lavished on his students' work was equal to what he demanded from them. His lectures, full of theoretical insights, were enhanced by irony and wit. He was as expert in reducing the issues involved in particular economic problems to their essentials and communicating his understanding to first-year economics students as he was in teaching 'high theory' to advanced honours undergraduates and to graduate students.

Later generations of his students are the certain beneficiaries of Weldon's most ambitious research project, unfortunately still incomplete at his death. The project, an analytical history of economic thought, occupied Weldon for much of the last decade of his life. There exists an enormous amount of material, well over 1500 typed pages. A mimeographed version was made available to each of the

students in his highly regarded History of Economic Thought course, a required and fundamental component of McGill's Honours Economics programme. Just prior to his fatal illness, Weldon had begun to edit for publication this mammoth but still rambling work.

In addition to his classroom teaching, Weldon played a central role in the graduate programme as a supervisor of Ph.D. dissertations. From 1978 until mid-1986, when his fatal illness made further work impossible, Jack supervised thirteen of the forty-one Ph.D. dissertations awarded by the Department of Economics. Moreover, he played the role of second reader in several other doctoral dissertations and supervised a number of M.A. theses. Many a McGill graduate student, whose career was in jeopardy due to dissertation difficulties, owes his or her 'rescue' to Weldon's ability to find a way of reducing a difficult problem to sensible and workable proportions. Weldon's willingness to go far beyond the call of duty in helping graduate students was undoubtedly one of the important factors which prevented the completion of his 'life's work' on the history of economic thought.

Weldon was more than a teacher of university students. His expertise in reducing economic problems to their essentials led to frequent radio, television and newspaper commentaries. He also wrote layman-directed pamphlets on such issues as public pensions and incomes policies. His reputation, both as a theorist and as an expositor, was such that he was often asked to appear as a witness by Royal Commissions.

Weldon's commitment to fairness and social democracy made him a natural supporter of the CCF/NDP and trade unions, to which he acted as an advisor. He was also a deeply committed Anglican, and for many years a fine chorister in the church, St John the Evangelist, which he actively served during his lifetime. Jack's was a religion of social conscience, activism and principle. He was in a real sense a Christian Socialist.

No academic biography of Weldon would be complete without reference to his battles within the university he loved. Throughout much of his thirty-eight years at McGill, Jack had a tendency to regard McGill's administration in 'us' vs 'them' terms. In part, this tendency reflected a departmental tradition with its origins in the 1930s and 1940s. When in his later years an important matter of principle arose in department-university relations, Weldon's call to principle was misunderstood or ignored by McGill's administration and by some of his own departmental colleagues as well. As a result,

Weldon spent most of his last decade at loggerheads with the university his presence graced, and in increasing isolation from several of his colleagues, most of whom he had hired.

Unfortunately, the protracted dispute with the university, in which Weldon's cause was taken up by the Canadian Association of University Teachers, was never resolved. The time and energy consumed, however, were another factor which contributed to Weldon's failure to complete his *magnum opus*. Fatalistically, his last curriculum vitae concludes 'this battle for academic values, I hope, will have been of some use to McGill, but in any event now (1986) seems to me the chief contribution of my academic life'. A few weeks before he died, Jack offered that perhaps he had erred in taking for granted that what he considered fundamental academic principles should have been easily recognised as such by his dissenting colleagues. With Weldon's passing McGill University lost not only one of its outstanding academics, but one of its consciences. He did not always presume that he was right, but he was ardent in his defence of intellectual honesty and integrity.

Nothing written about Weldon would be complete without mention of his unquenchable spirit and sense of fun. There was a special, impish quality to his personality that made him a favourite with a wide range of people – not least among some with whom he disagreed. Those who knew and loved him will never forget him. This *Festschrift* is a testimonial to Jack Weldon the man as well as Jack Weldon the creative and role-model inspiring economist and academic.

The *Festschrift* was to have been presented to Jack's widow, Hazel. Tragically, in January 1989, shortly before the *Festschrift* went to press, Hazel died in her home at the hand of an unknown intruder. All those who knew Jack and Hazel were stricken by this senseless act. With heavy hearts we shall present the volume to Jack's and Hazel's children, John and Susan, and to their grandchildren.

CHRISTOPHER GREEN\*

\* In preparing this biographical sketch, I have benefited from reading the biographical sketches of J. C. Weldon written by Tom Asimakopulos that have been published in *Canadian Journal of Economics* (May 1987) and in the *Proceedings of the Royal Society of Canada* (1989). I also wish to thank J. R. Mallory, a longtime colleague of J. C. Weldon in the former Department of Economics and Political Science, for his recollections.

# The Publications of John C. Weldon

- 'The Multi-product Firm', *Canadian Journal of Economics and Political Science*, vol. 14, no. 2 (May 1948) pp. 176-90.
- 'A Note on Measures of Utility', *Canadian Journal of Economics and Political Science*, vol. 16, no. 2 (May 1950) pp. 227-33.
- 'Preliminary Notes for a Theory of Distribution', *Econometrica*, vol. 19 (January 1951) p. 63.
- 'On the Problem of Social Welfare Functions', *Canadian Journal of Economics and Political Science*, vol. 18, no. 4 (November 1952) pp. 452-63.
- 'Economic Effects of Collective Bargaining', *Industrial and Labour Relations Review*, vol. 6, no. 4 (July 1953) pp. 570-78.
- (with B. S. Kierstead) 'A Note on the Expectations of Oligopolists', *Economie Appliquee* (September 1955) pp. 425-36.
- 'Economics of Social Democracy', in *Social Purpose for Canada*, ed. M. Oliver (University of Toronto Press, 1961) pp. 171-97. Reprinted in *The Canadian Economy: Selected Readings*, ed. John Deutsch *et al.* (Macmillan, 1965) pp. 140-72.
- (with J. St. Laurent) 'Province of Quebec: Submission to the Royal Commission on Banking' (St. Laurent, chapters I, II, V; J. C. Weldon, chapters III, IV, VI).
- (with A. Asimakopulos) 'The Classification of Technical Progress in Models of Economic Growth', *Economica*, vol. XXX, no. 120 (Nov. 1963) pp. 372-86.
- (with A. Asimakopulos) 'Sir Roy Harrod's Equation of Supply', *Oxford Economic Papers*, vol. 15, no. 3 (November 1963) pp. 266-72.
- 'Fairer Competition for Canada's Banks', *The Banker*, vol. CXIV, no. 464 (July 1964) pp. 417-21.
- 'The Economics of the New Pension Plans', *Proceedings of the C.L.C. Social Security Conference* (1965) pp. 5-24.
- 'Women Preachers and the Porter Commission', *Queen's Quarterly*, vol. LXXI, no. 4 (Winter 1965) pp. 461-7.
- (with A. Asimakopulos) 'A Synoptic View of Some Simple Models of Growth', *Canadian Journal of Economics and Political Science*, vol. XXXI, no. 1 (February 1965) pp. 52-79.

- 'Consolidations in Canadian Industry, 1900-1908', in L. A. Skeoch (ed.), *Restrictive Trade Practices in Canada* (Toronto, McClelland and Stewart, 1966) pp. 228-79.
- 'Public Goods (And Federalism)', *Canadian Journal of Economics and Political Science* (May 1966) pp. 230-8.
- (with A. Asimakopulos) 'On the Theory of Government Pension Plans', *Canadian Journal of Economics*, vol. I, no. 4 (November 1968) pp. 699-717.
- (with A. Asimakopulos) 'On Private Plans in the Theory of Pensions', *Canadian Journal of Economics*, vol. III (May 1970) pp. 223-36.
- 'Exorcising Inflation and Unemployment', *Labour Gazette* (September 1970) pp. 630-6.
- 'Theoretical Penalties of Inflation', in *Inflation and the Canadian Experience*, N. Swan and D. Wilton, eds (Industrial Relations Centre, Queen's University, July 1971) pp. 155-63.
- 'Inflation and Unemployment, Canada', Publication No. 2, Douglas-Coldwell Foundation, 7 pages (November 1975).
- 'On the Theory of Intergenerational Transfers', *Canadian Journal of Economics*, vol. IX, no. 4 (November 1976) pp. 559-79.
- 'The Role of Government in the Economy', *Report of the Proceedings of the Twenty-Eighth Tax Conference*, 1976 (Canadian Tax Foundation, 1977).
- 'A Critique of the Tax Based Incomes Policy Proposed by Sidney Weintraub', Canadian Centre for Policy Alternatives, publication no. 4, 24 pp. (1981).
- 'Response to Sidney Weintraub's "Prices and Incomes Policy"', in D. Crane (ed.), *Beyond the Monetarists* (Ottawa, 1981) pp. 78-82.
- 'Une Critique de la privatisation', *La crise économique et sa gestion*. Boreal Express, 2nd trimestre 1982, pp. 201-10.
- 'Incomes Policies in Canada: Programmes without Theory or Purpose', *Canadian Taxation*, vol. 3, no. 2 (Summer 1981) pp. 76-85.
- 'Pension Policies: Avoiding Confusion of an Essentially Public Problem', in Canadian Centre for Policy Alternatives, *Pensions: Public Solutions vs. Private Interest*, Conference Proceedings Series No. 1 (1982) pp. 176-98.
- 'Wage Controls and the Canadian Labour Movement' (one of the Jamieson Lectures given at the University of British Columbia, September 1982), publication no. 10, Canadian Centre for Policy Alternatives, 43 pages (1983).
- 'Pension Policy: Practice and Positive Theory' (one of the Jamieson

- Lectures given at the University of British Columbia, September 1982), publication no. 12, Canadian Centre for Policy Alternatives, 40 pages (1983).
- ‘A Critique of Privatization’ (one of the papers delivered in honour of Clarence Barber under the heading ‘Economic Policies for Canada in the 1980s’), ISER Monograph Series No. 2, *Macroeconomics: Theory, Policy and Evidence* (University of Manitoba, 1983) pp. 25–49.
- ‘On Social Policies In The Canadian Economy, 1986’, in *Christian Dimensions of Social Policy*, by M. Cooke, C. Pratt and R. Hutchison, eds (forthcoming).
- ‘The Classical Theory of Distribution’, in *Theories of Income Distribution*, ed. A. Asimakopulos (Boston, Kluwer Academic, 1988) pp. 15–47.
- ‘Economic Processes That Bind Successive Communities’, delivered at the *Conference of Anglican Economists*, St John’s College, University of Manitoba, 27, 28 May 1986.
- ‘Public Policy and Full Employment in Canada Since 1945’, in *Christian Faith and Economic Justice: Toward a Canadian Perspective*, ed. Crawford Pratt and Roger Hutchinson (Burlington, Ontario: Trinity Press, 1988), pp. 55–75.

# Contents

<i>John C. Weldon</i>	<i>frontispiece</i>
<i>Preface</i>	ix
<i>Notes on the Contributors</i>	x
<i>John C. Weldon (1922–87): An Appreciation by Christopher Green</i>	xii
<i>The Publications of John C. Weldon</i>	xvii
1 Introduction	1
<i>Robert D. Cairns</i>	
2 Economics: The Trunk and the Branches	12
<i>Kenneth E. Boulding</i>	
3 The Rise and Fall of the Public Sector in the Estimation of the Economists	28
<i>Dan Usher</i>	
4 Group Self-Interest: The Positive Analysis of Cooperative Behaviour	63
<i>Gideon Rosenbluth</i>	
5 Probability and Rationality in Economics	87
<i>Robin Rowley</i>	
6 On the Publicness of Fiat Money	100
<i>Thomas K. Rymes</i>	
7 The Role of Information in Trade Theory	121
<i>Murray C. Kemp and Shigemi Yabuuchi</i>	
8 Metzler's Tariff Paradox and the Transfer Problem	130
<i>John S. Chipman</i>	

9 On Models of the Wheat Boom in Canadian Economic History	143
<i>John H. Dales</i>	
10 Can We Avoid Another Great Depression?	156
<i>Clarence Lyle Barber</i>	
11 The Rise of Unemployment since the 1950s	176
<i>David Schwartzman</i>	
12 Public Pensions: A Social Response or a Misuse of Individual Saving?	200
<i>Louis Ascah and Athanasios Asimakopulos</i>	
13 Intergenerational Redistribution	218
<i>Peter Howitt</i>	
14 Pension Reform and Elderly Women: Some Evidence for Ontario Urban Centres	238
<i>John Burbidge</i>	
<i>Author Index</i>	261
<i>Subject Index</i>	265



# 1 Introduction

Robert D. Cairns\*

In a market economy, what is the role of collective efforts to improve social welfare and what does economic theory have to say about it? The chapters in this volume, written by former colleagues and friends of the late Jack Weldon, all touch on this pair of questions in a way that reflects the concerns of Weldon's career. One of my more vivid recollections of Weldon was his continual insistence on 'the essential unity of economics'. Possibly a part of that unity is its consistent attempt to address these two questions. In spite of the jokes about economists' habitual divergence of opinion, that unity comes out in this collection. More to the point, the attempt has not been a labour of Sisyphus, even though the problems have not been and probably cannot be resolved.

The two questions, central to policy analysis today, were a major concern of the classical economists, particularly Adam Smith, and this may in part explain Weldon's explorations of the history of economic thought in the latter part of his life. The themes of the volume are Smith's. We recognise that the State will always be present and must be present to allow for the smooth functioning of the market, but in the end it will often be clumsy. Society must make trade-offs between order and liberty, even between despotism and anarchy. The instability of economic processes sets up an intellectual conflict between analyses of equilibrium and disequilibrium phenomena. A place for 'moral sentiments', which Adam Smith studied before turning to the economy, must be found in a system which appears to neglect them but which relies heavily upon them for its cohesiveness.

In Chapter 2, Kenneth Boulding, one of Weldon's teachers, accords to Adam Smith the central position in the history of economic thought. The reason for this is Smith's insights into the evolutionary nature of the economic system. Boulding notes that information was of great importance in Smith's perception of that system. For

\* I am grateful to my co-editors, Tom Asimakopulos and Christopher Green, for comments on an earlier draft.