



ECON MATTERS

Department of Economics, Dalhousie University

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IN MEMORIAM

John Lally Cornwall, FRSC, passed away peacefully Thursday, December 4, 2008 in the VG Site, QEII, Halifax. Born April 27, 1928, in Spencer, Iowa, to Russell Morgan and Inez (Lally) Cornwall, he was the fifth of six children. John graduated from the University of Iowa with a B.A. in Economics in 1950, received a M.Sc. in Economics from the London School of Economics in 1952, and completed his Ph.D. in Economics at Harvard in 1958. During his career he received numerous honours, fellowships, and awards, including a Ford Foundation Fellowship and a Fulbright Fellowship. He was a professor at Dalhousie University from 1976 until 1993, and a Fellow of the Royal Society of Canada. He was the author of 10 books and many articles, with his first major book, *Growth and Stability in a Mature Economy* published in 1975, and his most recent, *Capitalist Development in the 20th Century: An Evolutionary-Keynesian Analysis* (co-authored with Wendy Cornwall), published in 2001. John was passionate about economics and its importance to society. He had a love of gardening, traveling, music, and life in general. He will be greatly missed by his wife, Wendy, Halifax; his daughters, Anne (Lowell Blood) and Paula, Halifax; his son, Morgan (Patricia) and grandson, Logan, Port Royal; sisters, Marian, Iowa City, Iowa; Patricia, York, Neb.; Clare, Spencer, Iowa; and Margaret, Oakland, Calif. He was predeceased by his sister, Barbara. By request of the family, donations in John's memory can be made to the Dalhousie University Department of Economics.

DEPARTMENT NEWS

On November 18th, The Association of Dalhousie Retirees and Pensioners and the Department of Economics hosted a lecture entitled **Squeezed by the Global Credit Crunch? Entering the Worse Economic Crisis of our Lifetimes?** The four panelists, Paul Huber, Talan İşcan, Lars Osberg, and Kuan Xu spoke on **What has gone wrong here and elsewhere? Why? Will the policy responses likely work? Where are we headed?**

Georges Menahem, a visiting scholar from the IRDES-CNRS and Paris 13 University, Paris, France, presented **The Decommodified Security Ratio (DSR)** on September 26, 2008, as part of the Department of Economics Weekly Seminar Series.

The Department of Economics hosted the **John F. Graham Memorial Lecture** on October 30. Robert Allen, Oxford University presented **The Industrial Revolution and the Rise of the West**. Following the lecture, the Department hosted a reception at the University Club. Earlier in the day, Dr. Allen presented a *Student Lecture* entitled **The Industrial Revolution in Miniature: The Spinning Jenny in Britain, France and India**. On October 31, he delivered a talk on **Engel's Pause: A Pessimist's Guide to the British Industrial Revolution**. The Department gratefully acknowledges financial support from the Office of the Vice-President, Research, and from the European Union Centre of Excellence.

CONGRATULATIONS

Best wishes to the following students who received their degrees at the October 2008 Convocation Ceremonies: MA: Marielle Wilson; MDE: Gayle Barnett, Wiebo (Kevin) Jager, Taylor (Seth) Leon, Amelie Lombard, Leigh Melanson, Sharaf Sultan, and Sarah Tougher.

Benjamin Evans, Kaylyn Fraser, Nicholas Hartley, Jesse Joice, Matthew MacEwan, Yuri Panin and Andrew Sapiano are recipients of a Professor W. Russell Maxwell Memorial Scholarship Award for 2008-09. The Department hosted a reception at the University Club on Friday, November 28, to honour the scholarship recipients.

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Kaylyn Fraser was awarded a W. Andrew MacKay Alumni Scholarship for 2008-09. In receiving this award, Kaylyn is being recognized for her “commendable academic record while demonstrating leadership in various extra-curricular activities, be they athletic or community service.” The recipient is chosen by the Alumni Association.

STUDENT ACTIVITIES

Maria Carpanelli and Diego Darvich, from Argentina, are attending classes at Dalhousie this term as part of the Dalhousie/Universidad Torcuato di Tella Exchange Program.

Jason Stevens (PhD) successfully defended his doctoral thesis at a defence held on Friday, November 17, 2008. Jason’s thesis is entitled: “Three Essays on the Effect of Uncertainty on Resource Markets.” Jason is employed as an assistant professor at the Department of Economics, University of Cape Breton. Jason’s external examiner was Gérard Gaudet, Université de Montréal, who also delivered a lecture entitled **The Efficient Use of Multiple Sources of a Nonrenewable Resource Under Supply Cost Uncertainty**.

Derek Yerex (MDE) began working as an Economist with the International Tax Division and the Canada Revenue Agency. Derek started working in Ottawa in October 2008.

ALUMNI UPDATE

Phil Carriere (MDE 2005) is current working as a Research Associate on health economics projects at the Department of Economics, Dalhousie University.

Sean McDonnell (MDE 1996) relocated from Halifax to Trinidad & Tobago during the summer, 2008. Sean is employed as a Project Director for the Trinidad Rapid Rail Project (TRRP), working with the National Infrastructure Development Company Limited (NIDCO). The TRRP is a proposed 95 km commuter rail service, currently in the planning and development stage.

Josie Marcille (MDE 2008) is working as a Policy Analyst in Labour Market Issues, Human Resources and Skills Development Canada, in Gatineau, Quebec.

Leigh Melanson (MDE 2008) is currently working as a Policy Analyst for Health Canada. Part of Leigh’s thesis has been web-published by the Alberta Department of Health and Wellness.

Christine Michaels (MDE 2007) is working as a Research Fellow at the London School of Hygiene and Tropical

Medicine. Christine’s work is currently based in Kenya. Bartu Soral’s (MDE 2006) thesis has been published. The book is entitled *Banking Crises and Bankruptcy for Profit in Turkey: The Anatomy of a Bankruptcy A Revealing Analysis of Confidential Information on the Fall of Esbank, one of the Oldest Commercial Banks in Turkey*.

Sarah Tougher (MDE 2008) is working as a Research Fellow at the London School of Hygiene and Tropical Medicine.

JOHN CORNWALL - AN APPRECIATION

It was just over twenty years ago, in August 1988, that I first arrived in Halifax and met John Cornwall. A year earlier in the spring of 1987, I had written to him – and to numerous others around the world associated with the Cambridge tradition in economics – hoping to find a dissertation advisor willing to help me to pursue my interests in macrodynamics. Like all students of this tradition, I wanted to write about the laws of motion of capitalism (what else?!) John’s reply was by far the most encouraging and enthusiastic response that I received, and I quickly became convinced that my future lay, under his supervision, at Dalhousie.

Eighteen months later, as we admired the sights along the North West Arm en route to dinner with Wendy, his wife and collaborator in so much of his work, John and I began the first of many conversations about economics. I remember professing an admiration for Joan Robinson, whose essays on historical time and equilibrium had set me thinking about the methodology of macrodynamic analysis. John expressed a preference for Kaldor (which will surprise no-one who knew him and his work), whose Okun Memorial Lectures addressing the same themes (Kaldor, 1985) had recently been published. It was my great good fortune to become associated with John just at the time that he, himself, was wrestling with these ideas, and trying to use them to make sense of the historical evolution of capitalism.

At the time, John was already an internationally recognized authority on the capitalist growth process. He had grown tired of the “one idea, one paper” journal article format by the early 1970s, and was fully committed to communicating with the profession through research monographs. By the time I met him, John had already published two books that described how capitalist economies could achieve sustained periods of rapid growth consistent with low unemployment. In *Modern Capitalism: Its Growth and Transformation* (Cornwall, 1977), the second and most celebrated of these books, John explained the post-war Golden Age of capitalism (1945–73) as a self-reinforcing virtuous circle of demand-led growth, using a Kaldorian model of cumulative causation. (The penultimate chapter, which discussed deindustrialization and the macroeconomic debacle of the mid-1970s, featured one of John’s best and also one of his own favourite chapter headings: “Closing Time in the Gardens of the

West.” As the *New Musical Express* once opined when reviewing Julian Cope’s *Peggy Suicide*, a great title is half the battle!

However, it was in *Growth and Stability in a Mature Economy* (Cornwall, 1972) that John laid the foundations for all steady-state models of demand-led growth, by explicitly discussing the reconciliation of the expansion of aggregate demand and aggregate supply – a reconciliation that is necessary if the equilibrium rate of demand-led growth is to be truly sustainable in the long run. With good reason, this issue has been rediscovered and further developed several times since the early 1970s (see, for example, Palley, 2002; Setterfield, 2006; Dutt, 2006, forthcoming). So although *Growth and Stability* has never enjoyed the popularity of its more illustrious successor (for example, I didn’t encounter it at all as an undergraduate at Cambridge, but I knew all about *Modern Capitalism*), I always thoroughly enjoyed the conversational turns that led John and I back to it, and that invariably ended with our concluding (with a chuckle) that it wasn’t a bad little book after all.

Nevertheless, 15 years into the prolonged post-1973 growth slowdown – a period that also witnessed the ills of simultaneous high unemployment and high inflation, the coincidence of which he began discussing in *The Conditions for Economic Recovery* (Cornwall, 1983) – John had decided that accounting for protracted periods of either better or worse macroeconomic performance simply wasn’t enough. Instead, the challenge lay in explaining how these episodes could rise and fall as part of a broader historical process in which successive episodes are causally related, and hence ultimately give rise to one another.

For John, the key to unlocking this puzzle was institutions, broadly defined to include norms, customs, conventions and formal laws – i.e., all forms of social structure that specify behavioural procedures of the sort “whenever confronted with situation x , do y .” In an environment of uncertainty and distributional conflict, institutions enable action, by prescribing behaviour when it is impossible to identify an optimal response to a situation. In the process, they play an important cognitive function, by making the likely future behaviour of others more predictable. Institutions also codify and regularize interactions between parties, and thus have the potential to reduce conflict. The very inertia of institutions, which in John’s turn of phrase renders them “exogenous in the short run but endogenous in the long run,” makes them ideally suited to these roles. As a result, institutions act as an “operating system” within which the income-generating process functions, producing protracted periods of either better or worse macroeconomic performance depending on the degree of “institutional fitness.”

Because John’s conception of the long run endogeneity of institutions involved their being sensitive to past macroeconomic outcomes, he saw the entire capitalist

system as being subject to a path-dependent process of evolution in the long run. In his vision, relatively enduring institutions give rise to episodes of macroeconomic performance lasting for several successive business cycles. But each episode of performance has feedback effects on the very institutions on which it is based. This ultimately creates institutional change and thus a new episode of performance, and so on.

The first fully developed accounts of these ideas can be found in John’s *Breakdown* books (Cornwall, 1990; 1994). But he continued to refine and hone the model of capitalist development laid out in these books throughout the last twenty years of his life. Perhaps its finest expression is to be found in *Capitalist Development in the Twentieth Century: An Evolutionary Keynesian Analysis*, which he co-authored with Wendy (Cornwall and Cornwall, 2001). By this point, John had begun to identify the medium run as the fundamental building block of macrodynamic analysis. Consistent with the thinking outlined above, John took the defining feature of a medium run episode of macroeconomic performance to be the institutional framework that was its ultimate cause, treating this institutional framework as robust to the aggregate fluctuations associated with the business cycle in the short run, but ultimately endogenous to trends in performance over consecutive business cycles in the longer term.

In tandem with the *Breakdown* books, *Capitalist Development* also succeeds in delineating the “Cornwall view” from other, similar visions of macrodynamics, such as those associated with Social Structure of Accumulation (SSA) theory and the French Regulation school (see, for example, Kotz et al., 1994 and Boyer, 1990 respectively). Despite its emphasis on negative feedbacks in the long run (as a result of which episodes of superior macroeconomic performance are expected to bequeath episodes of inferior performance, and *vice versa*), the Cornwall view eschews the more strictly cyclical view of capitalist growth associated with the SSA and Regulation approaches, ultimately being closer to Maddison’s (1991) conception of distinct but aperiodic phases of economic growth than the periodic rhythms of the long wave. *Capitalist Development* also makes clear the Cornwalls’ strictly Keynesian view of the income-generating mechanism, even in the long run, in contrast to the more Classical inspiration of much – although not all – descriptions of growth in the SSA and Regulation traditions. As David Colander noted in the foreword to *Capitalist Development*, John was a Keynesian to the core. Indeed, he frequently referred to his work of the last twenty years as essentially an effort to deepen and extend Keynes’ short run analysis, by uncovering the institutional foundations of the process of aggregate demand formation at any point in time (the “deepening” project) and providing an evolutionary, demand-determined account of the long run (the “extension” project).

At the time of his death, John, together with Wendy and I, was working on the latest refinement of the *Breakdown*

/Capitalist Development model. John had begun to turn his attention towards the inherent instability of a financialized growth process. Only this summer, we were discussing the irony of macroeconomists' current obsession with a "great moderation" in macroeconomic time series at a time when, in our view, capitalism was better characterized in terms of a "latent instability," owing to the unsustainable process of debt accumulation that many households were relying on to fuel growing consumption expenditures in the face of stagnant real earnings. Of course, this "latent instability" has become dramatically manifest in the intervening period, and talk of the perils of financial instability for the real economy is now commonplace (sometimes it even makes appropriate references to the work of Minsky, 1978; 1982).

As a true student of Keynes, John's interest in the topic ran far deeper than that of many who are now suddenly professing that money and finance matter. In *Growth and Stability*, John had outlined a model of the business cycle in which investment-led booms prompt savers to re-allocate their portfolios, away from deposits at thrift institutions (building societies) and towards corporate debt and equity. By reducing the capacity of the thrifts to finance residential construction, this development moderates the boom. During the downturn, savings flow back into thrifts which are then well placed to finance the pent-up demand for residential construction, thus moderating the slump. Given certain financial institutions, then, the housing cycle moderates the business cycle when the latter is investment-led. In *Capitalist Development*, John and Wendy used this model to explain the macroeconomic instability of the interwar years, when a consumption-led boom during the 1920s meant that the housing cycle was in phase with the business cycle and thus failed to play the stabilizing role described above. Thinking about macroeconomic developments over of the past twenty years, it is hard to overstate the extent of institutional change in the financial sector, which has seen thrifts become more like banks, banks entering the mortgage market, and both declining to hold the liabilities they create thanks to the "originate and distribute" model facilitated by securitization – all of which have de-coupled mortgage lending from the flow of savings towards thrifts on which it was previously dependent. It is easy to imagine how such institutional change has antagonized the disturbance-amplifying role of the housing cycle that John previously associated with weak investment booms.

John was on the verge of pulling together the pieces of this analysis at the time of his death, but unfortunately we will never know exactly how the financialized capitalism of the last two decades fitted into his vision of evolutionary long run growth and development. If nothing else, however, the themes intimated above, when set along side the comparative analysis of labour market institutions that dominated his account of the rise and fall of the Golden Age in the *Breakdown* books and *Capitalist Development*, serve to illustrate the sheer breadth of the canvas on which

John worked. Never one for fiddling at the margins (and despite his preference for Kaldor!) John would surely have delighted in Joan Robinson's approval of those who stride through the discipline wearing seven league boots. He was, undoubtedly, just such an economist – a true proponent of what Colander (2004) calls "big think."

In August 1988, I sat on the tarmac at Heathrow Airport and for the first time since I had written to John the year before, I wondered if I really knew what I was doing. Within forty-eight hours, all such doubts had been dispelled, and I felt that I had found a new home from home. John Cornwall was my dissertation advisor, my mentor, and eventually my colleague and collaborator. But above all else he was my friend, and it's in that capacity that I'll miss him most.

(Mark Setterfield, PhD1993)

For works cited above, see:

<http://economics.dal.ca/Files/econmatters17.pdf>

ANNUAL JOHN CORNWALL PRIZE/SCHOLARSHIP

As noted elsewhere in this newsletter, John Cornwall died suddenly on December 4th, 2008. After appointments at Tufts University and Southern Illinois University, he joined the Economics Department at Dalhousie in 1976 as a full Professor, specializing in Macro-Economics. Although he formally retired in 1993, he continued to teach the core honours macro-economics course until 2002, and never ceased professional activity - at the time of his death he was in the middle of writing his latest book and making plans for academic conferences in England next summer.

In honour of John and in his memory, the Department and Cornwall Family hope to establish an annual Cornwall Prize/Scholarship. Persons who would like to remember John in this way are invited to send their donations or pledges to the Economics Department or to External Relations, Dalhousie University. (Be sure to mark your donation as being for the "John Cornwall Memorial Fund, Dalhousie University.") All donations are tax-deductible as a charitable donation.

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