

Economic Commentaries (EC)



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*Department of Economics
2500 University Drive, NW, Calgary, Alberta, Canada T2N 1N4*

*Telephone: 403 220-5857
Fax: 403 282-5262*

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Introduction

Daniel V. Gordon

Welcome to the Fall-07 issue of Economic Commentaries. In this issue we present three reports. First, Dr. Kevin McQuillan, Dean Faculty of Social Science, shares some of his ideas and thoughts for the faculty in the coming years. This is followed by a comment by Dr. Chris Bruce on the issues of homelessness and the best approach to addressing this serious social problem. Following, Dr. Scott Taylor presents some new and interesting research looking at the economic issues of the slaughter of the North American Bison. He concludes that the demise of the bison was of European not American origin. Finally, we offer a profile of some recent graduates of our Masters and PhD programs.

EC is pleased to introduce the new Head of the Department of Economics, Dr. Ken McKenzie. We start this issue of EC with Dr. McKenzie's comments for the department.



Ken McKenzie

As the new head of the Department of Economics (as of July 1, 2007) I would like to welcome you to another issue of Economic Commentaries.

To begin, I would like to take the opportunity to acknowledge and thank my predecessor Dr. Elizabeth Wilman for her tireless work on behalf of

the department over the past six years. Dr. Wilman is on a well deserved administrative leave for the next year.

I think it is useful at this time to provide a little bit of background about the Department. The Department currently consists of 31 faculty members. Two more faculty members will join us in 2008, bringing the total to 33. Three individuals joined the Department in 2007 – Dr. Ana Ferrer, who specializes in Labour Economics, Education, and Income Distribution; Dr. Subhasish Dugar, who works in experimental economics, industrial organization, and applied game theory; and Dr. Eugene Choo who specializes in empirical industrial organization and the economics of the family. In January of 2008, Dr. Joanne Roberts will join the department as a tier II Canada Research Chair in the Economics of Organizations. Dr. Jared Carbone will join us in July 2008; his research focuses on large-scale environmental and public policies, climate change, the environment, and applied general equilibrium modeling. We are also pleased to welcome Dr. Jack Mintz, who will take up a position of the Palmer Chair in Public Policy, and will launch a new School of Policy Studies at the University of Calgary in the new year. Dr. Mintz was formerly CEO of the C.D. Howe Institute, and a member of the Department of Economics and Rotman School of Business at the University of Toronto.

The Department of Economics at the University of Calgary has emerged as a real force among research oriented economics departments in Canada. The Department is the home of two Canada Research Chairs, two Svare Chairs, and two University Professorships. Members of the Department are producing a stream of high quality research output, published in the top general interest and field journals in the discipline. Department members also play a key role in policy discussions, participating in several provincial, federal and international panels, committees and commissions. Faculty members have won research awards for outstanding publications and contributions of both a scholarly and policy nature,

and we continue to be successful in terms of attracting research money from both provincial and national granting agencies.

On the teaching front the Department has continued its tradition of excellent teaching at both the undergraduate and graduate levels. The department has the largest number of undergraduate majors in the Faculty of Social Sciences, at just over 600. Our graduate program currently stands at 57 students – 30 M.A. students and 27 Ph.D. students. Members of the Department continue to be nominated and receive teaching awards at both the faculty and university level.

It is my privilege to be a part of such a successful department, and I look forward to my three year tenure as Head of the Department of Economics. I trust that you will enjoy this most recent edition of Economic Commentaries.

and students and, with our entry into the G-13 group of research-intensive Canadian universities, I believe there will be great opportunities for us to build on our past contributions in research and in undergraduate and graduate education.



Kevin McQuillan

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These are exciting times to work in Canadian universities. Governments at both the provincial and federal levels have become more aware of the importance of building our research capacity and extending opportunities for advanced education to a larger proportion of young people. Initiatives such as the Canadian Foundation for Innovation, the Canada Research Chairs program, and the Alberta Heritage Foundation for Medical Research have provided much needed support for innovative research. We have also seen a far greater commitment to supporting universities from corporations, foundations and private donors. The University of Calgary has been among the most successful universities in attracting this support, and it is transforming our campus and adding critically needed resources for both teaching and research.

Dean McQuillan, Faculty of Social Science

Professor Gordon asked me to share some of my ideas for the Faculty of Social Sciences as I begin my term as Dean, and I am grateful to him for the opportunity to do so. I am delighted to have joined the Faculty of Social Sciences and the University of Calgary. The Faculty is home to excellent scholars

While these various initiatives have strengthened universities across the country, universities, and faculties of social science, in particular, face a number of challenges as well. Rising rates of participation in post-secondary education are welcome but bring great pressure to bear on our institutions. This is especially so for the social sciences, always a popular destination for students. Calgary is no exception – one in four course registrations at the university is in the Faculty of Social Sciences. Of course, it is not only the rising numbers but the great diversity in the background and abilities of our students that makes teaching a difficult task for faculty members. At the same time that we deal with enrolment pressures, Faculties of Social Science face intense competition to hire the best faculty members, attract the best students, and claim our share of internal and external resources. Average entering grades, proportions of professors with research funding, and dollars available for scholarships and bursaries are now carefully calculated and compared. The publication of the Macleans ratings has crystallized in the public mind the process of ranking universities and colleges. Anyone who works at a university recruitment event will be keenly aware that students and their parents are now far more knowledgeable about what different institutions have to offer and how they stack up on various measures, even if some of the measures have only limited meaning.

With such a crowded agenda and so many audiences to please, how can a Faculty or University make good decisions about how to invest its resources, both human and financial? The specific answers will vary from place to place, but the guiding principle must be that we always place first the issue of quality. While that may seem little more than an empty cliché, just a few months in the Dean's office have convinced me that it is anything but. We are constantly bombarded with proposals to develop new programs, compete for new funding opportunities, and seek or accept new donations. Given the pressing needs in the Faculty for new appointments of faculty and staff, more space, and funds to support research, it is tempting to pursue

every opportunity that comes our way. But to do so threatens to scatter our energies and our resources. We need to think carefully about what we hope to accomplish when we make decisions about how to employ our time and our money.

In the months ahead, I look forward to meeting with and listening to faculty members, staff and students and hearing their views on the challenges that face us. Here are three issues that, in my short time at the U of C, appear to me to be of special importance.

The Quality of the Undergraduate Experience

As student numbers grow and their preparation becomes more variable, it is difficult for universities to provide an environment that will allow students to grow intellectually and socially. Yet, the future of the university rests on achieving success with our students. The students of today are the taxpayers and alumni donors of tomorrow, and if they leave the university feeling their time was not rewarding or did not prepare them for the challenges of living in our society, the university will be the loser. The data we have available from various surveys suggest that we have work to do in improving student evaluations of their time at the U of C. I am striking a committee of students and faculty to examine this issue, and they will be seeking comment and suggestions from all members of the Faculty.

Strengthening Graduate Education

There is a new appreciation across Canada of the importance of graduate education. Many governments, most notably the government of Ontario, have made major new investments in graduate studies. Universities have responded with an increased emphasis on graduate enrolment and determined efforts to recruit students. Arguably, the number of spaces now exceeds the number of qualified and interested applicants. Our priority must be to attract the students who are best prepared to profit from studying in our programs

and to give them the resources they need to complete their studies in a timely manner. The best advertisement for our programs is the accomplishments of our graduates, and we must do everything we can to put in place the conditions that will allow them to succeed.

The Role of Social Sciences in the University and the Community

Although the social sciences address many of the most critical issues facing modern societies, faculties of social sciences are often overshadowed on campus and in the community by professional faculties. I hope to work with members of our Faculty to raise our profile on campus and in the community. We need to tell others about the accomplishments of our faculty and students and explain why our successes are beneficial to the community as well. And we need to point to these accomplishments as we seek the support we need to sustain and expand our work. Our efforts to obtain support must start within the University but we need to look outside as well. The University of Calgary has achieved enormous success in its development program. We have attracted more donor support than universities elsewhere that are larger and have far more alumni to draw upon. To date, our faculty has had only limited success. To my mind, there is no good reason why this should be so. My hope is that we can build a development effort that will, in time, significantly increase the resources at our disposal to support exciting new initiatives in research and education.

Homelessness is ‘Not A Problem’

Countless times recently, Canadians have been told that homelessness is “a problem” – indeed, not just a problem, but a serious problem. We have heard this so often now that it has become part of our common

understanding – like “men can’t be trusted to ask for directions” or “Albertans are rednecks.”



Chris Bruce

But every once in a while, it is worth stepping back to examine the sources of conventional wisdom. When we do this we find that there are two grounds for believing that homelessness is not a problem in Canada. Indeed, to assert that it is a problem distorts the public policy debate.

First, homelessness is not a ‘problem’ - it is a symptom. Yes, there are homeless people in Canada, but their lack of housing is no more a problem than the spots associated with measles are a problem.

It’s not the spots we should be concerned with, it’s the measles. Treat the measles, and the spots will disappear. Treat the spots, and the measles will still be there.

It’s the same with homelessness. Provide homes to the homeless and the root causes of their situation will be unchanged. The poor, for example, will still be poor. One aspect of their lives will be improved, but they will still lack the income to buy clothes, transportation, food, and a whole host of other necessities.

But treat the root causes of homelessness and the housing problem will be, if not solved, at least reduced significantly. Find out why people are so poor that they cannot afford housing, and deal with it, and they will not only be able to buy better housing, but also better food, clothing, and transportation.

Second, homelessness is not the symptom of “a” problem - it has numerous causes. Some of our “spots” are due to measles, but some are due to chickenpox, and others to acne. Treating only one of the causes of homelessness will not resolve that issue any more than treating acne will cure measles.

If we are going to make real progress, the public debate must explicitly identify each of the causes of homelessness and recognize that each requires a different type of public policy.

Probably the most important source of homelessness is substance abuse. True, the people sleeping under our bridges are also poor, but for most of them poverty is primarily a symptom. If we just put those people into subsidized housing, they will still be abusers. We may not have to pass them sleeping on the sidewalks on our way to work. But they will still be there, cap in hand on the street corners, dragging their carts through the back alleys looking for pop cans, to support their habits.

Equally, providing housing for the mentally ill may make their lives a little better. But they also need clothes, food, and transportation. And more importantly, they are in urgent need of assistance in dealing with their illnesses. The danger is that if we shunt these people off to subsidized housing, we will assume that we have done all that is necessary and will forget them.

Finally, there are those who have neither an addiction nor an illness – those who simply have insufficient income - the poor. What these people really need is help finding ways to earn more money – education, language training, job search and work skills, etc.

Providing this group with housing is counterproductive in two ways. First, it can never be more than a stop gap measure. Put a poor person into a house and they are still poor. It is not so much a house as it is the ability to afford a house that they need.

Moreover, providing the poor with housing doesn't solve their other needs – for food, clothing, transportation, education, recreation, and entertainment. So, the same approach that argues for the provision of subsidized housing argues for government provision of every aspect of the poor family's needs. Soon they simply become beggars at the public's purse, accepting whatever hand-out we deign to give them, and losing control over most aspects of their daily lives.

If we are not going to help them to help themselves, at the very least we should stop giving them “things,” like housing, and start giving them money, so they can at least make decisions for themselves.

Is all this just semantics? Does it matter whether we call homelessness a problem instead of a symptom? Does it matter whether it is one symptom or one of a number? Yes. Because when we forget that it is just a symptom, public policy becomes misdirected, away from the problems that cause homelessness and towards policies that are just band aid solutions.

And when we forget that homelessness is just one of many deficiencies faced by the least advantaged members of our society, we become in danger of downplaying those other deficiencies, like lack of food and clothing.

We are a rich country, populated by peoples whose religions all call on us to show mercy to the downtrodden. Let us not become sidetracked because we have misstated the problem that confronts us.

Buffalo Hunt: International Trade and the Virtual Extinction of the North American Bison



Scott Taylor

Two hundred years ago, Meriwether Lewis and William Clark completed their epic voyage of Western discovery. Their vivid account of the West's natural beauty and its limitless wealth spurred on thousands of Americans to carve out a new life and new nation west of the Mississippi. Westward expansion with its stories of frontier hardship has shaped much of American national identity by showing how self-reliance, risk-taking and hard work could tame a wild frontier. While the 19th century is surely one of the most inspirational periods in American history, it also bears witness to a less flattering record with regard to the environment: most significantly, the slaughter of the plains bison, or buffalo.

This paper examines the slaughter using theory, empirics and first person accounts from diaries and other historical documents. It argues that the story of the buffalo slaughter is surprisingly not, at bottom, an American one. Instead I argue that the slaughter was initiated by a tanning innovation created in Europe, and maintained by a robust

European demand for buffalo hides. These market forces overwhelmed the ability of a young and still expanding nation, just out of a bloody civil war, to carefully steward its natural resources.

Specifically, I argue that three conditions are jointly necessary and sufficient to explain the time pattern of buffalo destruction witnessed in the nineteenth century. These are: (1) a price for buffalo products that was largely invariant to changes in supply; (2) open access conditions with no regulation of the buffalo kill; and (3), a newly invented tanning process that made buffalo hides into valuable commercial leather.

In the 16th century, North America contained 25-30 million buffalo; by the late 1880s less than 100 remained wild in the Great Plains states. The species Bison comes with two distinct varieties: the common Plains bison and the less common Woods bison found exclusively in Canada. I focus on the extinction of the plains bison or buffalo in the U.S., leaving an examination of the Canadian case for future work.

While removing buffalo east of the Mississippi took settlers well over 100 years, the remaining 10 to 15 million were killed in a punctuated slaughter in a little over 10 years. Standard explanations hold some combination of U.S. Army policy, the Railroads, and changes in native hunting practices responsible. My claim is that (1), (2) and (3) are both necessary and sufficient.

The argument I develop proceeds in three steps. First I build a novel model of buffalo hunting. It assumes potential buffalo hunters differ in their hunting skill, and allows for easy entry and exit.

For the most part, I take world prices as given and assume throughout that there are no controls over hunting. The model is made general equilibrium by the addition of a numeraire good sector which serves as the outside option for potential buffalo hunters. The general equilibrium structure is

helpful to our discussion of export flows, and necessary for our construction of an autarky counterfactual.

The theory delivers two key results. First, it shows how the combination of an innovation in tanning, fixed world prices for hides, and open access to the herds proved fatal to the buffalo. The innovation in tanning creates frenzied entry into hunting, the buffalo herds decline rapidly, and the "harvest" of buffalo hides booms.

Fixed prices ensure the new supply of buffalo hides cannot dampen the incentive to hunt; open access ensures that regulations limiting the kill are not forthcoming; and the tanning innovation plus hunter heterogeneity delivers a punctuated slaughter. Rigid prices, no controls on hunting, and a slaughter compressed in time are important and verifiable features of the historical record.

Second, the theory shows how rigid prices are necessary for the story. If prices adjust considerably to changes in supply - as they typically would if buffalo products had only a domestic market - then the number of hunters can rise over time even as the buffalo are wiped out. The "punctuated slaughter" is smoothed out over time, and hide prices rise as the buffalo approach extinction. All of these predictions are inconsistent with the historical record: hide prices fell slightly over the period; there was massive entry and then exit, and the slaughter was in fact just that.

In sum the theory provides a prima facie case for the importance of international markets in the slaughter, and directs us to look at international trade statistics for empirical evidence. Accordingly, the second step is to examine evidence on U.S. exports of buffalo hides.

A natural consequence of the rapid elimination of the buffalo is that records of the number killed are non-existent, and only very partial shipping records exist. U.S. trade statistics from the 19th century contain categories of exports that contain buffalo

products, but no individual entry is labelled buffalo meat, buffalo robes or buffalo hides. The key series I employ is "hide and skins exports" and this surely contains both cattle and buffalo hides. To solve this problem, I employ economic theory and independent work on the U.S. cattle cycle to construct a time series of buffalo hide exports from the overall export figures. This constructed series is then cross-checked for consistency against several pieces of independent evidence. The cross checks examine the magnitude of the implied exports, their timing, and their geographic variation. I also find direct supporting evidence of buffalo hide exports in newspaper accounts, personal diaries, and business directories in importing countries. Finally, I examine import data from Canada, the UK, and France and develop an alternative quasi-experimental approach to estimating buffalo hide exports.

While the model's analytic results prove that my three conditions are sufficient to generate the slaughter they do not prove necessity. The final step then is to argue for necessity by showing the newly constructed export data support the export-driven slaughter hypothesis. The magnitudes of the export flows are considerable. Approximately 6 million buffalo hides are exported over the 1871-1883 period and this represents a buffalo kill of almost 9 million. The timing of greatest export flows fits the historical record extremely well. The implication is clear: absent the innovation that made full time buffalo hunting possible, the buffalo population west of the Mississippi would have trended slowly downward for decades as it had east of the Mississippi. History however was not so kind to the buffalo.

The work presented here differs from earlier contributions in several ways. Most importantly the focus here is on the 'slaughter.' There is no real mystery as to why the buffalo were eliminated from their previous ranges - an expanding population, conversion to agriculture, and industrialization all spelt the end for the buffalo sometime during the late 19th or early 20th century.

What is surprising is the rate of killing and its variation over time: one half of the pre-contact buffalo population was killed in just ten years time post 1870; the elimination of the other half took over 100 years.

This focus on the slaughter is important, because it suggests international markets may have soaked up the excess supply while keeping prices constant. Investigation of this possibility led to the major contribution of this work: the identification of international trade as a key driver in the process. The earlier contributions from economic history explored rather different positive and normative questions, and in each case there was little debate as to the ultimate cause of resource depletion. In contrast, I argue that the usual suspects held responsible for the slaughter on the plains - the Railroads, the U.S. Army, Environmental change or altered native hunting practices - are in fact innocent.

An examination of the slaughter also provides important case study evidence on the speed with which property rights institutions can adapt in the face of new circumstances. In this case the changed circumstance was an innovation, and the adjustment, as measured by new regulation, was slow. In contrast, market responses were immediate and powerful. This relative speed of adjustment is key to many policy debates, and given the dearth of empirical evidence directly on point, case study evidence can be of great value.

Looking back to our past provides us with guidance for the future. For in the not too distant past, Europe was the high income developed region, while America was a young still developing country. In the 1870s, America was a large resource exporter with little or no environmental regulation, while Europe was a high income consumer of U.S. resource products. Written in this way it is apparent that the story of the buffalo has as much relevance today as it did 130 years ago. Many developing countries in the world today are heavily reliant on

resource exports, are struggling with active or recently past civil wars fuelled by racial strife, and few, if any, have stringent regulations governing resource use. The globalization pressures these nations face today, and the policy choices they have to make, are not too different from those facing the U.S. in the late 19th century.

The slaughter of the North American buffalo surely represents one of the saddest chapters in American environmental history. To many Americans at the time, the slaughter seemed wasteful and wrong as many newspaper editorials and letters to Congressmen attest, but still little was done to stop the slaughter. While several Great Plains states enacted legislation to limit and control the hunt, these laws were ineffective and unenforceable. The only serious piece of federal legislation was passed by both houses in 1874 only to be killed by a pocket veto by President Grant.

The destruction of the buffalo and the wanton slaughter of other big game across the west did however pay some dividend. The slaughter of the buffalo in particular was pivotal in the rise of the Conservation movement in the late 19th and early 20th century. Almost all of the important players in the Conservation movement experienced the slaughter first hand - Teddy Roosevelt, John James Audobon, John Muir and William Hornaday.

The creation of the national park system in general, and the Yellowstone herd in particular, are a direct consequence of the revulsion many felt to the slaughter on the Great Plains. Because of these efforts, over 300,000 buffalo are alive today in reserves and commercial ranches across North America.

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Graduate Student Profiles



Afshin Honarvar

PhD Economics, University of Calgary, Canada 2007.
MA Energy Economics, University of Tehran, Iran 1996.
BA Economics, Shiraz University, Iran 1994.

Dr. Honarvar joined the Canadian Energy Research Institute (CERI) in August 2006. He has an extensive and international background in energy economics. His current research is in oil and gas markets with emphasizes on advanced econometric modelling.



David Bruner

Successful PhD dissertation defence November 8, 2007.
'Essays on Risk, Preference Elicitation in the Laboratory'
Supervisors: Drs. Michael McKee and John Boyce



Mike Napier

MA Economics, University of Calgary 2007
BA Economics (Honours), University of Western Ontario 2006

Mike is a senior analyst with Framework Partners Inc. Framework is a consulting firm specializing in strategic planning. He is responsible for market research, focus group facilitation and survey data analysis. Visit the website www.framework-partners.com



Pawel Ponsko

Successful PhD dissertation defence November 9, 2007.
'Essays on Decisions Making and Social Comparisons'
Supervisors: Drs. Michael McKee and Curtis Eaton
