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# **ECONOMICS**

**LARRY SJAASTAD, 1934-2012**

**by**

**Kenneth Clements  
Business School  
University of Western Australia**

**Hans Genberg  
IEO, International Monetary Fund**

**Arnold Harberger  
University of California and  
University of Chicago**

**James Lothian  
Fordham University**

**Robert Mundell  
Columbia University**

**Hugo Sonnenschein and  
George Tolley  
University of Chicago**

**DISCUSSION PAPER 13.03**

# LARRY SJAASTAD MEMORIAL



**11 OCTOBER 2012**

**ROCKEFELLER CHAPEL, THE UNIVERSITY OF CHICAGO**



*Larry Sjaastad, 1934 - 2012*

## *Contributors*

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### **HUGO SONNENSCHNEIN**

Adam Smith Distinguished Service Professor in Economics, The University of Chicago  
Formerly President of The University of Chicago

### **ARNOLD HARBERGER**

Professor of Economics, University of California, Los Angeles  
Gustavus F. and Ann M. Swift Distinguished Service Professor Emeritus, The University of Chicago

### **GEORGE TOLLEY**

Professor Emeritus of Economics, The University of Chicago

### **ROBERT MUNDELL**

University Professor, Columbia University  
Awarded the Nobel Memorial Prize in Economic Science, 1999

### **HANS GENBERG**

Assistant Director at the Independent Evaluation Office, International Monetary Fund  
Formerly Professor of International Economics at  
The Graduate Institute of International Studies in Geneva

### **JAMES LOTHIAN**

Toppeta Family Chair in Global Financial Markets and  
Distinguished Professor, Fordham University

### **KENNETH CLEMENTS**

Winthrop Professor of Economics, The University of Western Australian and  
BHP Billiton Research Fellow

# LARRY SJAASTAD MEMORIAL

Thursday October 11, 2012, was a brilliant, bracingly windy day in Chicago. It was an appropriate day for the Department of Economics of The University of Chicago to hold a Memorial Service to commemorate and celebrate the professional life of long-time faculty member Larry Sjaastad, who died on May 2, 2012. This document contains written versions of the presentations on that occasion. It is supplemented by a list of Larry's publications, references to obituaries and tributes, and a list of the PhD students he supervised at Chicago.

Julie Wong of the Department of Economics of The University of Chicago made a substantial contribution to the organisation of the memorial service. In compiling this document, I have benefited from the assistance of Thomas Simpson. I thank Carlos Alfredo Rodriguez for his assistance with the list of Larry's publications.

Kenneth Clements

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## *Introduction by Hugo Sonnenschein*

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On behalf of The University of Chicago and its Department of Economics, it was my honor to convene a celebration of the life of Larry Sjaastad.

Although each of the contributors spoke from their own particular perspective: teacher of Larry, senior colleague, student, and co-author, the picture that emerged was of a single piece. Here was a man who studied at our university and whose brilliant PhD thesis rather quickly earned him a place on our Faculty. Here was a man whose scholarship fundamentally influenced the thinking of our profession on migration, economic development, public finance, and monetary theory, and whose ideas were practical and changed the world. Here was a celebrated teacher who led our graduate program and also found time to play a central role in the development of academic programs in Latin America, Australia, and Europe. Here was a colleague who was simultaneously your toughest critic and your closest friend. And here was a man with a rich family life and exceptional devotion to his wife Irene and his children Michael and John.

## *Comments*

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### **ARNOLD HARBERGER**

Of those speaking today, I am the one who was most involved in the Latino Connection, which constituted a major part of Larry's life. For him, that connection began early in his graduate studies. The Chicago Department's 8-year project with the Catholic University of Chile was underway, and the first group of Chilean trainees were already studying here. It was probably they who started a tradition that lasted for decades at Chicago – a tradition of parties – not once a year but once a week. In the Chileans' case it was a party every Saturday night except at exam time. The venue was an apartment in the 5100 block of Kenwood Avenue. Fuenzalida played the guitar, Fuenzalida, Herta Castro, and Albornoz sang; Fontaine and De Castro were the warmest of hosts. But the key was the mix of people – Sjaastad, a fellow student, Carl Christ and I, young faculty, plus a sprinkling of other faculty and other students. These occasions formed a bond among that group that in many cases lasted for a lifetime. That was when Larry and I formed our own strong bond.

It was also there that Larry became an honorary Latino – a fully-fledged member of the group. So it was not unusual that we turned to Larry to lead a new program at the University of Cuyo in Mendoza, Argentina. Sponsored by USAID, as had been the Chilean program, it seemed natural to make it a tripartite one – linking Cuyo with both The University of Chicago and the Catholic University of Chile. As a result, the staff at Mendoza in the first two years consisted of Sjaastad, Fontaine and Yver, the latter two from Chile, with Larry as the leader.

They faced an enormous problem of modernizing an outmoded economics curriculum, which was almost as difficult to amend as the US Constitution! Their ploy was to offer modern courses – the ones they thought were most needed – outside the regular curriculum. Participants in our programs had to take these courses, and came to appreciate them greatly. Their enthusiasm helped bring about the gradual absorption of this new material into the standard curriculum at Cuyo.

The esprit de corps among faculty and students at Cuyo was reminiscent of the great bonding that had taken place at the Chicago Boys' parties. This was obviously a pretty direct transplant; Sjaastad, Fontaine and Yver were all veterans of the Chicago scene.

These connections – in the classroom and out – formed the basis of the extremely tight bond linking Larry to the Argentine participants at Cuyo. These were lifelong ties, surviving as strong up to the end as they were at the beginning. These students learned from Larry, admired and revered him; in the Biblical sense they loved him, and were open enough to share their appreciation time and time again – even when they became central bank presidents and cabinet ministers in Buenos Aires in the 1990s – the high point of Argentine economic policy for over half a century or more.

Larry returned to Chicago after his stay in Argentina, and became part of another scene of continual mixing among graduate students and junior and senior faculty. These were the days of the post workshop parties – would the next one be at Harry Johnson's, at Bob Mundell's, at Larry's or my house, or even from time to time at Bob Fogel's. This was a famous time at Chicago, but it was not all play by any means. We talked serious economics at these parties – on major new trends like the monetary approach to the balance of payments, or our new extensions of cost-benefit analysis, or the rising star of real exchange rate economics. Personally, I think the student-faculty closeness of those days was a model – not a model that can be replicated at will, but one which (like life on earth) came into being when suddenly there emerged the just right confluence of events, supporting institutions, and above all just the right people.

My own connections with Larry were worldwide. He was Mr. Inside and I was Mr. Outside in the Cuyo Project. But we also worked together in Rio, in Sao Paulo, then over several years in Uruguay, then in Panama over a period of years, and often in Chile and throughout Central America. In all this work and more generally, Larry showed a tremendously broad command of fundamental economics – and most specifically a set of outstanding diagnostic skills. If there was a problem you couldn't figure out, or a set of data that seemed contradictory and puzzling – your best bet was to turn

to Larry, who more often than not was able to visualise the underlying process that made sense of what seemed a jumbled mess.

Larry wasn't a prolific writer in part, I think, because of a perfectionist bent in his personality. It was hard for him to let go of something he had been working on, having always in mind different ways to make it better.

I am not familiar with all his work, by any means. But I simply must report on two items. The first is his thesis on migration, which emerged as an article in the Journal of Political Economy.<sup>1</sup> I always felt this was a pathbreaking work, and that it should rank highly in the literature. So I was very pleased when about a year ago a well-known urban economist approached me quite out of the blue, asking about Larry. No particular purpose – just to tell me how much he had appreciated and relied on Larry's work on migration, and how that article was still today, some 50 years later, one of the migration papers that was most cited, and most listed on graduate reading lists.

The other paper I want to mention is the "Social Cost of Public Finance", written jointly with Dan Wisecarver.<sup>2</sup> To my mind it is a great paper in the field of cost-benefit analysis, with many significant messages for the profession. Glenn Jenkins and I were delighted to include it in our book of readings on the subject.<sup>3</sup> We think it didn't get the attention it deserved because the authors tried to pack too much material into too small a space making the result too dense for many readers.

That paper provides a definitive sorting out of the pros and cons of two concepts of the so-called social discount rate, or economic opportunity cost of capital. Its detailed evaluation of these concepts is a gem. The most powerful argument of the paper, however, is already signalled in the title. It is not the social cost just of capital (for investment) but rather the social cost of borrowing for whatever purpose. Applied to government, it is not just the social cost of funds borrowed for investment projects, but funds used for either capital or current outlays. That is what the authors mean by the "Social Cost of Public Finance".

If you use method A (which we prefer) the social discount rate reflects the full opportunity cost – say 8 percent – of raising funds in the capital market. If you use this method you can and should count the cost of your outlays – whether for investment or for current purposes – as what you actually paid for them.

Method B, on the other hand, does its discounting at a much lower rate – say 4 percent – intended to reflect the marginal rate of time preference of consumers or of society. The early literature

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<sup>1</sup> "The Costs and Returns of Human Migration." Journal of Political Economy 70 (1962): 80-93.

<sup>2</sup> "The Social Cost of Public Finance." Journal of Political Economy 85 (1977): 513-47 (with D. L. Wisecarver).

<sup>3</sup> Cost-Benefit Analysis (International Library of Critical Writings in Economics), edited by A. C. Harberger and G. P. Jenkins. London: Edward Elgar, 2002.



on this subject (by Marglin and others) talked about investment projects, and correctly insisted that if in drawing money from the capital market you lose economic benefits corresponding to an 8 percent rate, you have to somehow manage to reflect these lost benefits even when you use a lower rate for discounting. That early literature accomplished this thanks to the concept of a shadow price of investible funds (SPIF), equal to 8 percent divided by the lower rate used in discounting. With a 4 percent time preference rate, this shadow price must be 2 ( $= 8 / 4$ ).

The bombshell that the Sjaastad-Wisecarver paper threw into this analysis was not to destroy it, but to extend it. Just as, in our case under method B, the present value of benefits of an investment project has to exceed its capital outlays by a factor of 2 (in our example) they noted that this factor of 2 came out of the act of borrowing money, and should be used even when it was spent for on current outlays. Thus, those who opt for method B, should, to be consistent, ask that future school teachers, policemen, firemen, garbage collectors, etc., etc., should all produce benefits equivalent to at least twice their salaries (in our example), in order for the expenditure on their salaries to be justified.

It is hard to exaggerate the power of this reasoning. In my opinion it should sound the death knell for Method B. This paper represents a major achievement in the literature of cost-benefit analysis, a fact in which Larry's family members and friends should take great pride.

### **GEORGE TOLLEY**

The present written version of remarks presented at the October 2012 Memorial Service for Larry Sjaastad is a fitting follow-up to the collection of letters by colleagues, students and friends paying tribute to Larry at the time of his retirement from the University in 2004. In the letter I wrote at that time, I complimented Larry with what to me is high praise as being a true economist, virtually without equal and with wonderful instincts for insightful analysis and relevance. I noted that it would be wonderful for Larry to remain in Hyde Park and be available for intellectual companionship for many years to come. I feel much gratitude for the eight more years that this turned out to be possible.

Few people at the University knew Larry as a colleague and personal friend longer and better than I. While some of his and my specialized interests within economics coincided, I did not work closely with him in the areas for which he is most well-known. The Department of Economics partial compilation of his bibliography contains 81 entries, of which 20 entries have "exchange rate" in the title, often featuring in the title the words "real exchange rate" and "purchasing power parity". Many of the remaining entries also pertain to topics related to international finance. The other speakers at this Memorial Service are far better able to comment on his work in these areas. I will leave it to them to do so.

To turn to that part of Larry's work with which I am more familiar, his 1961 PhD thesis and a few follow-up articles growing out of it introduced the human capital approach into the study of

human migration. As far as I know, his work was the first to cast migration fully and systematically in terms of costs and returns of moving. His analysis was based on comparison of the prospective present value of earnings in a life cycle context for an individual deciding whether to stay in the present location or to migrate to another destination. The universally observed age selectivity of migration and other migration phenomena were explained analytically and elegantly. Larry's work laid the foundation for the huge amount of research on migration by economists who subsequently entered the field of migration. Economic analysis has been a dominant influence in migration research ever since.

Another important strand of Larry's work is reflected in the article he co-authored with Daniel Wisecarver, "The Social Cost of Public Finance."<sup>4</sup> The article straightens out the roles of the real rate of return on capital and the consumption rate of interest as determinants of the social discount rate to be used in deciding whether to undertake a government investment. It is a capstone and a definitive contribution on this subject. Larry winnowed and selected among the several contending views to that time. He showed how they were related to the welfare-maximizing condition that the social discount rate is a weighted average of the real rate of return on capital and the consumption rate of interest. He masterfully demonstrated how previous work by major authors up to that time did and did not fit into this condition.

The historical significance of Larry's contribution on the social discount rate deserves emphasis. His and Harberger's work on which he built goes back to the long-standing question of whether the real rate of return on capital or time preference explains interest rates. The straightforward answer is that, with no market imperfections, the two rates are equal, with the rate of time preference adjusting to the real rate of return through the choice between present and future consumption. Harberger and Sjaastad were the major proponents arguing for a role for the real rate of return against authors on the other side who were mesmerized with the consumption rate of interest (time preference) as a measure of welfare, generally without recognizing the extent to which the consumption rate of interest is wagged by the real rate of return of capital. A compelling reason for attention to the real rate of return is the differences between the social and private real rate of return on capital due to such things as the subsidy to housing via the tax deductibility of mortgage interest.

Earlier in the twentieth century, Hayek of the Austrian school represented the time preference view in vociferous debate with University of Chicago economist Frank Knight who followed the English school on the side of the real rate of return on capital, a debate which in turn had roots stemming from Böhm-Bawerk's Austrian views in the nineteenth century espousing time preference. In arguing for inclusion of the real rate of return in the social discount rate, Harberger and Sjaastad were leading academic proponents of an English and University of Chicago tradition that was in danger of being abandoned by the rest of the profession.

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<sup>4</sup> "The Social Cost of Public Finance." *Journal of Political Economy* 85 (1977): 513-48 (with D. L. Wisecarver).

An array of further subjects appear in Larry's bibliography, which range as far as such things as the steel industry. They demonstrate Larry's versatility. It would be instructive to go into all of these articles, but there is neither time nor knowledge on my part to do so.

The final entry in the bibliography that caught my eye was "An Economic Analysis of the Navigation Proposal for the Arkansas River and Its Tributaries," from 1959.<sup>5</sup> Here again is evidence of Larry's versatility and the work is known to me, as I was involved in this research evaluating government natural resource expenditures. It brings back nostalgia-evoking memories of doing field work with Larry in the South in an early time of his life. Larry's talent for combining the best in economic thinking with highly practical considerations, that figured in all his work, was there from the beginning.

Larry's teaching, for which he received an award, and his contributions to the Department, especially in the admissions area, deserve mention. From serving on many PhD committees with him and from our jointly conducting the Economic Policy and Public Finance Workshop, I can attest to how fine he was in working with graduate students.

In closing, I would also like to mention the great devotion between Larry and Irene.

### **ROBERT MUNDELL**

This celebration of Larry Sjaastad's life is an occasion I didn't want to miss, but circumstances keep me in Europe at this time. Let me first give my greetings to the family and friends of Larry gathered here.

When I was Larry's colleague at The University of Chicago in the 1960s I treasured his original comments, wit and needling in seminars, at the continuing after-five, quite liquid seminars at the Quadrangle Club, and in private dialogue.

His colleagues and students through the years shared his ideas, saw his commitment to students, and his honesty in research and convictions. Keynes once said that progress in economics lies in the choice of economic models. Larry was not only deeply immersed in model-building but had a gift for knowing whether a model suited an economy or needed adjustment. His closeness to real-world policy problems and his enthusiasm made him a legendary teacher well-recognized four years ago by the Norman Maclean Faculty Award from the school's alumni association given in recognition of his excellence in teaching.

Larry's influence was perhaps most felt in Latin America where "the Chicago boys" became known for their evangelical spread of the wisdom of free markets, laissez-faire and economic stability. In the press the "Chicago boys" were sometimes credited to (or blamed on) Milton Friedman. But I

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<sup>5</sup> "An Economic Analysis of the Navigation Proposal for the Arkansas River and Its Tributaries." Chicago, 1959 (with C. B. Haver and W. B. Black).

once heard our friend Harberger make a correction: “The Chicago boys are *my* boys!” he said. Al was right! But maybe they were partly also Larry’s who at the beginning at least was Alito’s valued lieutenant in Latin America.

The breakdown of the international monetary system in 1971—the year I left Chicago—created a deep cleavage in the economics profession. Even before that, around 1968, the Chicago Tribune ran a feature article on the split in Chicago’s Economics Department over fixed versus flexible exchange rates, referring to me and to Friedman respectively. Milton was (with Sir James Meade) of course the prime advocate of flexible rates, but I always preferred the discipline of fixed exchange rates as a system for maintaining monetary and fiscal stability. I would say that on this issue Larry, like his mentor Harberger, immersed in the problems of Latin America, was eclectic--or should we say pragmatic. We had a common student in Rudiger Dornbush who tried (not very successfully) to reconcile the two ideas in the *tablita* system which became popular for a short time in Latin America.

Larry was mostly involved in public finance and economic development but he also had strong positions in international trade theory. Let me just mention one very important instance where he took a theoretical idea and brought it almost single-handed to developing countries. I am referring to Abba Lerner’s “Symmetry of Export and Import Taxes.”<sup>6</sup> This theorem—which is not at all obvious to partial equilibrium economists—was of enormous importance to developing countries in Latin America. With his co-author Ken Clements, Larry clarified, developed and applied the idea in How Protection Taxes Exports.<sup>7</sup>

That is all I can say now. We have lost a beloved friend and great colleague. Larry was a man who was true to himself and thus to all of us. Over the past decades we have admired the support that Irene and Larry gave to each other and empathize with her in the loss as we do with Larry’s sons, Michael and John, and Larry’s sisters, Ardyce and Bette, and his grandchildren. He will be sorely missed.

### **HANS GENBERG**

I am greatly honored to have been asked to share with you a few vignettes relating to Larry as a professor, mentor, colleague and very good friend.

Let me start in St. Paul Minnesota at Macalester College in the spring of 1969. Larry’s signature was on a letter I received then accepting me to the graduate program of the Economics Department of The University of Chicago. This not only changed my career plans but it eventually led to a long and much treasured friendship with Larry and Irene.

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<sup>6</sup> Lerner, A. P. “Symmetry of Export and Import Taxes.” Economica 3 (1936): 306-13.

<sup>7</sup> How Protection Taxes Exports. Thames Essay No. 39. London: Trade Policy Research Centre, 1984 (with K. W. Clements).

Although strictly speaking I did not have Larry as a professor, lectures notes from his Econ 332 class played an important role in the preparation of the core exam in our study group. I still remember the elegant explanation of how the Phillips' curve could be combined with a conventional model of aggregate demand in an analysis of inflation and output dynamics. This was back in 1970 when such an integration of aggregate demand and aggregate supply relationships was still in its infancy. I also remember how the lecture notes from Larry's class explained why the size of the government spending multiplier could vary over the business cycle and how it depended on the substitutability between private and public spending, insights that are often forgotten in public policy debates even now.

Change continent and fast forward to 1978. This is when I became a colleague of Larry's. At the time I was a professor at the Graduate Institute of International Studies in Geneva, Switzerland and Larry came as a Visiting Professor that year. Succeeding Harry Johnson and Bob Mundell who had been regular visitors before, he continued a tradition of having University of Chicago economics professors come as visitors to the Institute in Geneva. Larry's tenure was to become the longest, lasting formally until 1987 and more informally for many additional years. This was probably due in part to the influence of Irene who appreciated coming back to Switzerland to visit with her parents in Lausanne.

Larry brought new perspectives to the curriculum at the Graduate Institute in Geneva. Allow me to quote from an "In Memoriam" written by Alexander Swoboda and me, and which is posted on the Institute's website:<sup>8</sup>

There was little, if any, teaching devoted to issues related to less developed economies when Larry started his regular visits to the Institute. His courses on trade and development, monetary and fiscal policy, cost-benefit analysis, all with reference to less developed countries, and some specifically to Latin America, thus filled a gaping hole in the curriculum. He opened the eyes of a whole generation of students to development issues and stimulated several dissertations in the field. He proved a trusted and liked advisor to students and a stimulating and exemplary colleague.

In the past several days I have spoken to colleagues and former students who share these memories about Larry' teaching in Geneva. Apart from Alexander Swoboda, I would like to mention Richard Blackhurst with whom Larry collaborated on Trade Policy seminars during his visits. Both Alexander and Richard regret not being able to be here today, but they send their warmest regards and thoughts to you Irene.

Several students from the Geneva Institute who now work at the IMF, on Wall Street and in academia also asked me to convey their appreciation of Larry as a teacher. Paul Mathieu and Ethan

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<sup>8</sup> Genberg, H., and A. Swoboda. "In Memoriam: Larry Sjaastad." The Graduate Institute Geneva, 8 June, 2012. <http://graduateinstitute.ch/Jahia/site/iheid/cache/bypass/lang/en/institute/news;jsessionid=4A557096166A6AE3A929E0F80DE303B8?newsId=143934>.

Weisman at the IMF, Frank Leiber in New York and Brian Bethune in Boston are among those who remember Larry well and who especially mentioned the enthusiasm he showed for economics and his readiness to provide constructive advice to students.

Change continent again to get a glimpse of Larry as a mentor. To be specific, let us go to El Salvador in 1984 and '85. This was a time when I had the opportunity to work with Larry on an AID-financed project to advise the government on the unification of the country's exchange rate system. He invited me, together with Carlos Rodriguez and Alexander Swoboda, to join him.

The collaboration on this project was an occasion for me to see economics come to life in an important policy context thanks to Larry's ability to expose the essence of the issues involved and provide a framework for thinking about a solution. What I learned from Larry during the missions to El Salvador has served me well in numerous policy contexts since then.

I would like to end these remarks on a more personal note, describing some images that appear in my mind when I recall the visits of Larry and Irene in Geneva. These visits did not only involve teaching and discussing economics. They were also occasions to socialize and have a good time. There were the obligatory dinners at 'Chez Roberto' in the Eaux-Vives district of Geneva, as well as the perch fillet and asparagus dinners at various restaurants along the lake. But most of all what I recall from the social aspects of these visits was the attention and love that Larry always showed towards Irene throughout these years.

In closing I hope that my remarks have conveyed how I will always remember Larry; razor sharp as an economist, loyal and generous as a friend and mentor, and warm and loving as a husband.

Thank you.

### **JAMES LOTHIAN**

I am greatly honored to have been asked to say a few words about Larry Sjaastad at this memorial service. Before doing so, however, I want to express my sincerest condolences to Irene and to the rest of Larry's family.

Larry was my teacher – an excellent teacher from whom I learned a great deal. He also became a good friend.

I have always thought that taking Larry's Latin American problems class was a defining point in my development as an economist. It was, if you want, a high-level survey course of economics – not any one field but the whole kit and kaboodle. That course and his macro course were crucial to my passing the core exam. Combined with his course in development project analysis, those two were, I believe, also crucial to my overall education as an economist. His excursions into monetary economics, particularly in the course on Latin American problems were a big factor in my later choosing money as a field. I had taken 331 from Lester Telser and audited Milton Friedman's version

and learned a lot, but what helped me to put everything together was Larry's three or so lectures on Latin American inflation.

In the Latin American Workshop which I attended for a time, Larry's comments and generally rigorous approach provided object lessons to a first-year student about how to conduct oneself in a workshop setting: Come prepared, ask good questions, make intelligent comments and not spout any of the self-aggrandizing nonsense of the sort George Stigler satirized so well in his Journal of Political Economy note "The Conference Handbook."<sup>9</sup>

Once again looking over the long list of dissertations that Larry mentored, or helped mentor. I continue to be amazed, not just by the sheer number – 139 – but even more by the breadth of topics these dissertations encompassed – money/macro, international finance, international trade, economic history, growth and development, public finance, history of thought and varied applications of price theory. It's a truly impressive performance.

Between the mid-1990s and early 2000s, Larry had me out to Chicago to give four papers in the Public Policy Workshop that he and George Tolley ran. It was a fine intellectual experience and a very good time, chatting, presenting my work, having lunch with Larry and later having dinner, to which my son Jim, then a doctoral student in history at Chicago, was usually invited.

Around the same time, I had the opportunity to publish two very good papers of Larry's in the Journal of International Money and Finance, which I was then editing. The first was on the relationship linking gold prices and exchange rates; the second was on nominal and real exchange rates and the effects of measurement errors on estimates of the latter.<sup>10</sup> After Larry retired, JIMF published Ken Clements' tribute to him "Larry Sjaastad, The Last Chicagoan."<sup>11</sup> Two years earlier we had published Al Harberger and Larry's short introduction to Rubén Almonacid's posthumous article "The Determinants of Nominal Income, Output and the Price Level: A Synthesis of the Keynesian and Neo-classical Views."<sup>12</sup> I am glad that I was in a position to be able to do all of this.

Now I would like to turn to two episodes that have always stuck in my mind and that I think provide an insight into Larry's overall make up and, in one instance at least, his quiet but somewhat madcap sense of humor. The first was in the Quad Club at lunch before the first paper that I gave in the Public Policy Workshop. We were talking and at one point I guess I became a bit preoccupied if

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<sup>9</sup> Stigler, G. J. "The Conference Handbook." Journal of Political Economy 85 (1977): 441-43.

<sup>10</sup> "The Price of Gold and the Exchange Rate." Journal of International Money and Finance 15 (1996): 879-97 (with F. Scacciavillani). "On Exchange Rates, Nominal and Real." Journal of International Money and Finance 17 (1998): 407-39.

<sup>11</sup> Clements, K. W. "Larry Sjaastad, The Last Chicagoan." Journal of International Money and Finance 24 (2005): 859-72.

<sup>12</sup> Almonacid, R. D. "The Determinants of Nominal Income, Output and the Price Level: A Synthesis of the Keynesian and Neo-classical Views." Journal of International Money and Finance 22 (2003): 747-72. Harberger, A. C., and L. A. Sjaastad. "Rubén Almonacid: An Appreciation." Journal of International Money and Finance 22 (2003): 773-75.

not perhaps downright squirmy. Larry looked at me with a little grin and, if my memory serves me, that grin gradually spread across his face. He knew what was going on.

He said something like “What’s the matter, Jim?” I replied, “Well, you know, Larry, coming back to Chicago presenting a paper.” He drew it out a bit and then started laughing. “Jim, you were a member of the Money Workshop but it’s been over twenty years since Milton ran that. Relax. No problems with mine by comparison.” I was relieved. “You mean you don’t start out with ‘What’s wrong with page one?’” I still chuckle when I recall that conversation.

The second episode took place in the Latin American Workshop. Larry and Al Harberger were concerned about the continual late arrival of its members. The workshop scheduled to start at 7:30 in the evening. A number of the students, however, continually straggled in around 8:00 pm, sometimes a bit later. Larry and Alito hit on a plan. Announce the meeting time of the workshop as 7:00 pm. That way it could start at 7:30 to a full house. The plan worked – for a week or so at least. But then the latecomers caught wise and adjusted their behaviors accordingly and went back to coming at their usual time of 8 pm. This was circa 1968, before experimental economics had its moment in the sun and before rational expectations took hold in macroeconomics. Again I have to chuckle.

Larry will be missed by all of us.

Requiescat in pace.

## **KENNETH CLEMENTS**

This is a very sad occasion, but I am grateful to the Department of Economics for providing the opportunity for me and the others to speak about our long-standing friend Larry Sjaastad. I first met Larry in 1974 when I started as a student here. He was to be my teacher, adviser and close collaborator for almost all of the following 40 years. Larry was not only an exceptional economist, but also a truly wonderful teacher, friend and supporter.

I would first like to share with you some reflections of Larry as a teacher, adviser and mentor. Simply put, Larry was a brilliant teacher. In the classroom, Larry was not so much a dazzling showman as a teacher capable of genuinely connecting with students and frequently revealing unique insights into the subject matter. He would illustrate economic theory with many references to the real world, from Latin America and Australia in particular. Clarity of exposition and the ability to make a subject interesting to newcomers were the hallmarks of Larry’s teaching. Larry could be tough and demanding of students when required, but equally he was kind and understanding toward those who were trying, but struggling. In short, Larry had a special gift as a teacher. His former students were especially pleased when, in 2008, the University recognised Larry’s abilities and achievements over 42 years as a teacher with the Norman Maclean Faculty Award.



Larry was in big demand by students as a dissertation advisor – he served on 139 dissertation committees! This commitment must have involved an unrelenting workload. He was always very generous with his ideas and his time when helping students with their research. Consultation sessions with Larry were always rewarding because of the careful attention he paid to your progress, the reassuring calmness with which he delivered his advice, and the valuable suggestions he offered on how to wrap up a difficult chapter. And when Larry lit up that second or third cigarette, the ideas really started to flow thick and fast!

Relatedly, Larry showed unflinching support for his students in private and in public – no matter the odds. On more than one occasion when I was being attacked in public, Larry leaped to my defence, and, at considerable risk to himself, informed my opponent that he was speaking pure rubbish. And I observed Larry do this for others as well. This courageous support for those in need was always greatly admired by Larry's students.

### Larry in the Southern Hemisphere

Larry and Al Harberger's work in Latin America is so well known that it is now the stuff of legend. Less well known is Larry's work in that other Southern country, Australia. Over a period of about 25 years, he travelled to Perth 18 times – that's a gruelling 30-hour door-to-door trip. Larry seemed to particularly enjoy life in Australia: He liked the politics and the culture, and he enthusiastically picked up the colourful Australian vernacular. He also loved the Australian irreverence for authority, something that seemed to just click with the playful side of Larry's personality. Maybe Australia reminded him of rural North Dakota, where he grew up.

Larry helped The University of Western Australia tremendously with teaching, research, fund raising, arranging visitors (including Bob Mundell) and hiring new staff (including MoonJoong Tcha). All in all, Larry played a major role in building up Economics at UWA.

### Larry's Research

Larry's research was unalloyed Chicago Economics, but his work also had a clear personal style, and was never influenced by fads. Technically, Larry was very capable - he was, after all, Alito's star student - but his work never overemphasised technicalities at the expense of the broader economic issue and its relevance to understanding the way the world worked. His research was primarily driven by the long-standing issues, problems and concerns faced by small open economies, such as commercial policy, exchange rates, debt and deficits and commodity prices, as well as migration and the foundations of public finance.

Larry had a unique way of absorbing key facts and arguments during his visits to foreign countries; in many instances, the arguments he encountered were developed by him and his students into important, influential research papers. Larry was always in demand as a researcher and as a conference participant, and could be relied upon to produce work that was always of great quality and often provocative.

In addition to his published work, Larry disseminated his research through his public presentations, his advice to governments (advice that was uncompromising and, sometimes, unpalatable to the recipients) and his teachings, all of which were highly effective and greatly valued.

#### Larry the Person

Larry was tough – both physically and mentally. He could sit in a plane all night, work the next day, and then celebrate long into the evening. He was also charismatic, and drew people around him – students and colleagues from around the world wanted to be close to Larry, to work with him and to learn from him.

Another important characteristic of Larry was his honesty – and at times that honesty could be a bit too brutal for some people to bear. Relatedly, Larry was a man of strong views, views which were backed up by a burning wit and a love for intense public debate. At high-level conferences, Larry often commanded the audience's attention by getting to the heart of the matter and declaring either (i) how valuable a paper was, or (ii) that it was worthless – usually there was no middle ground. Larry would make his case forcefully, but with good humour - sometimes his comments were hilarious! Larry's discussion of a topic usually demonstrated a clever and unique perspective that no-one else had taken before. His comments were the ones that people talked about the most and that were remembered long afterwards.

Despite his many achievements, Larry was a modest man. To mark Larry's retirement in 2004, a book comprising 72 letters from former students, colleagues, and friends was published.<sup>13</sup> The letters acknowledged the large intellectual debts Larry's students and colleagues owed to him, and expressed warmth and admiration for Larry in glowing, but appropriate, terms. Larry reacted to the book in his typical laconic style by saying that he would never have thought that his students could tell so many lies!

Larry was fun and a bit of a prankster, but he was also a “man of the world”. This was reflected in the breadth of his knowledge and his appreciation for how economies actually worked, a talent that is surprisingly rare in many universities. Larry projected a quiet confidence in all that he did, and his academic work and commentary demonstrated a low tolerance for bulldust, an intuition for where the bodies were buried, and an uncanny ability to judge people and to spot the charlatans long before anyone else did.

Larry was a great exponent of Chicago economics in his teaching, research and policy advice. He had a deep appreciation of and affection for what Chicago stood for, and was an excellent ambassador for the University during his extensive travels throughout the world. One could see this clearly when he'd meet former students. Inevitably, the topic of the Department of Economics would come up – the war stories would flow, as would the accounts of the major achievements and

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<sup>13</sup> The Larry Sjaastad Letters. Crawley, Western Australia: University of Western Australia, Business School, Economics, 2004 (compiled by K. W. Clements and M. Tcha). <http://www.business.uwa.edu.au/school/disciplines/economics/?a=102549>, <http://www.business.uwa.edu.au/school/disciplines/economics/?a=102550>.

challenges faced by the Department. In my experience with these discussions, Larry was always open and honest in his views, but totally committed to, and positive about the future of, Chicago Economics. In short, Larry was a Great Chicagoan.

One final thing I must mention about Larry the person: Larry's total commitment to his wife Irene over a period of more than 25 years. This was clear for all to see. The strength of their love was an inspiration to us all.

Larry's greatest professional legacy will probably prove to be the large number of former students he so profoundly influenced in the classroom and as a thesis advisor, as well as the people he worked with in the US, Latin America, Europe and Australia. This legacy will definitely live on.

Larry was a uniquely talented economist and teacher, and a person with great human qualities. I was very fortunate to have known him so well, and I will miss him greatly.

Thank you.

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