

OTTO ECKSTEIN

by

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Otto Eckstein was best known as Chairman and Founder of Data Resources, Inc., but he was also a top ranked Professor of Economics at Harvard. His scholarly activities were a central concern of his life, both at DRI and at Harvard and a survey of his scientific accomplishments is an appropriate prelude to this group of essays, especially written to honor his memory.

Otto's first published research was an article on criteria for the selection of public investments. This article appeared in the **Quarterly Journal of Economics** for 1957, the year of his Harvard Ph.D. His dissertation was published by the Harvard University Press in 1958 under the title, **Water Resources Development: The Economics of Project Evaluation**.

Otto's thesis contains a complete intertemporal theory of welfare economics. He used this theory to derive practical rules for cost-benefit analysis of public investment projects. His contributions were the starting point for the broad application of the cost-benefit approach, which was adopted as official U.S. government policy during the administration of President Lyndon Johnson.

Otto's maiden research effort illustrates the character of his scholarship as vividly as anything that came later. First, he chose a problem of practical importance. Second, he created a general framework that could be applied to a wide range of similar problems. Finally, he exhibited a strong belief in economics -- even of a rather technical variety -- as an approach to the analysis of policy issues.

Within a very few years after his first book, Otto Eckstein had become a major figure in the economics profession. He served as Technical Director of the Joint Economic Committee study, **Employment, Growth and Price Levels**. After the multi-volume report on this study was published, he served for two years as a member of President Johnson's Council of Economic Advisers.

With the benefit of hindsight the decade from 1958 to 1968 can be seen as a long gestation period for Otto's greatest research effort. During this decade he conducted research on wages, prices and productivity. He helped develop an econometric model for analyzing the impact of stabilization policies on the U.S. economy. Finally, he undertook a major study of income maintenance programs.

At the end of the decade in 1968 Otto began four years of intense activity that led to the first version of the DRI model of the U.S. economy. As Otto recounts the story in his 1983 book of the DRI model, the Great Recession of 1975 was a watershed in

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Otto Eckstein 1927-1984

President, Eastern Economic Association
March, 1983-March, 1984

econometric modeling. None of the models available at that time succeeded in tracking the U.S. economy through what became the deepest recession since the end of the second World War.

The experience of the Great Recession lead many leading scholars in macroeconomics to despair of success in econometric modeling. This same experience sent Otto and his growing team of researchers at DRI back to the drawing boards. He and his colleagues devoted their efforts to the development of the second version of the DRI model, which was completed in the late 1970's and reported in his 1983 book.

The DRI is by far the most ambitious macroeconometric model ever built. It consists of over 800 equations and engages a team of twenty-five full time professionals. This model and the organization that sustains it represent the ultimate fulfillment of Otto Eckstein's twin scientific objectives: first, to create a general framework for business and economic policy analysis and, second, to use this framework in analyzing practical problems.

In addition to his great gifts as a scholar, Otto Eckstein brought truly unique leadership ability to his research efforts at DRI. This ability and his unremitting commitment to excellence have made him the most influential economist of his generation among the rapidly growing community of policy analysts. Through them he has had enormous impact on decision makers at every level of business and government. Otto Eckstein contributed as much as anyone else to the important role that economics has assumed in the practical affairs of American society.

An important component of Otto Eckstein's leadership ability was a basic optimism that never deserted him. Even in the midst of the greatest challenges and the greatest adversities, he retained his faith in economics as an intellectual enterprise. His positive outlook characterized his scientific work and permeated everything he did. As much by his own example as by any formal precept, he communicated this outlook to his many collaborators and associates.

Otto Eckstein brought to all of his many roles -- business leader, public figure, teacher, and scholar -- the human qualities that we, who were his colleagues and friends, will always remember -- his warmth and sincerity, his personal integrity, his generosity and concern for others. All of us who admired and loved Otto Eckstein will greatly miss him.