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# *Arthur M. Okun*

## *1928–1980*

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ARTHUR M. OKUN died unexpectedly from a heart attack on March 23, 1980, in Washington, D.C., at the age of fifty-one. The nation has lost its most inventive and effective policy economist in his prime. His death came just six weeks before the tenth anniversary meeting of the Brookings Panel on Economic Activity, and just months before the completion of his long-awaited book, *Prices and Quantities: A Macroeconomic Analysis*.

Okun was set apart from his peers by a unique range of skills. His intellectual powers could cut through to the essence of a complex problem. His common sense combined with deep insight could uncover central relationships while avoiding academic fads and techniques for their own sake. His command of the facts on the American economy added immeasurably to his effectiveness both in scholarly discussions and in his many dealings with policymakers. His entrepreneurial energy and editorial devotion helped build *Brookings Papers on Economic Activity* within a decade into one of the four most-circulated academic economic journals and made it an indispensable vehicle for the dissemination of new macroeconomic insights. His graceful pen and flair for phrasemaking made him the most quoted and influential opinion molder of the last decade. His honesty, warmth, and modesty brought the admiration of all who knew him.

As recently minted Ph.D.'s from M.I.T., we first came in contact with Art Okun in 1969 when he enlisted our participation in a unique new venture he was then starting with George Perry. A group of economists, including us, some of our graduate school classmates, Okun, Perry, and

others, would come together three times a year for a series of conferences on macroeconomic issues. Each of the panel members would be responsible for a major paper during the year that would bring the latest quantitative techniques to bear on outstanding current macroeconomic controversies while presenting the results in a form suitable for the educated public.

When our turns came in 1970 we submitted our first drafts and were promptly astonished by the reaction of the editors. This was not to be an ordinary conference volume where an author's random thoughts and whims would be published intact. This was not to be an ordinary journal where a curt referee's report was the only editorial input. Instead, our drafts were scrutinized by the Okun-Perry editorial microscope, with assumptions challenged, omissions protested, contradictory results uncovered. Then, after our second drafts had been distributed, came that dreaded moment at the meeting when we sat down at our places and opened an envelope containing a typed memo from Art, revealing a new set of flaws in the second draft and reminding us of all those in the first draft that had not yet been fixed. After the meeting an author was held prisoner at Brookings until the paper made yet another step toward meeting the editors' standards. At every stage, the pressure was not so much for beautiful prose as for good sound economics, well explained and well documented. Then, most amazing of all, a printed journal appeared in our mailboxes a scant two months after the meeting.

The success of *Brookings Papers* during the past decade rested on more than editorial rigor and administrative efficiency. The selection of panel members was important, particularly the willingness to gamble on young unknowns fresh from graduate school in preference to established stars. The selection of topics was important, displaying an unerring instinct for issues that were both timely and of lasting interest. The "Editors' Summary" was important, allowing the Okun-Perry pen to translate academic gibberish into a few comprehensible paragraphs, particularly when the practical realities of discourse among economists overturned the early rules against equations and Greek letters.

Art had a marvelous sense of humor that he always subordinated to the real point he was trying to make. He rarely made jokes for their own sake. At the first meeting of the Brookings panel in 1970, one of us gave a short paper on the then-developing recession. For us, it was the first recession of our new macroeconomic careers, and we excitedly pointed

to what seemed unique features. Art listened with his customary close attention and finally said, “Ah, now I see what you are saying—this flat tire is special because it is flat on the bottom.” He loved to coin colorful nicknames for new concepts and findings—we still think of George Perry’s discovery of the cyclical sensitivity of the probability of a job-quitter becoming unemployed as the “Perry Pothole,” thanks to Art.

The quality of Okun’s mind was revealed at Brookings panel meetings when, impatient at a confused comment, he interrupted to restate the point clearly, one of several talents that he shared with Milton Friedman. As another sign of intellectual leadership, Okun was a member of a small group of outstanding senior economists whom we felt our own research had to convince if it was to have lasting merit. Art’s position at the top of his profession did not rest on abstract mathematical or econometric innovations but on his ability to combine a central question with his own intuition and an internal encyclopedia of facts to come up with a new answer. Okun relished serious engagements with the new breed of anti-Keynesian economists. He took a thoughtful position on rational expectations in the labor market: He was fully prepared to grant the rationality of expectations, but denied the simple connection between expectations and wage inflation. To him, the mystery of the momentum of inflation was not solved by the mere invocation of expectations.

Undergraduate students of macroeconomics link Okun’s name with Okun’s Law, which states that the unemployment rate moves by one-third as much as the gap between actual and potential real GNP. Okun’s Law has been of immense value to forecasters who need to translate output changes into predictions about unemployment. More than just a forecasting shortcut, it calls attention to the paradox of fluctuations in output that are out of proportion to fluctuations in employment. The demise of the law has been announced prematurely by journalists, because in fact unemployment and the GNP gap seem to have been related as closely in the 1970s as in the 1950s and 1960s. The appearance of an overly rapid decline in the unemployment rate in 1977 and 1978 reflected the slowing growth rate of potential GNP and the fact that the responsiveness of unemployment to the gap had actually *always* been closer to 0.45 than 0.33 throughout the postwar era. In fact, we suspect that this modified version of Okun’s Law will prove to be indispensable in tracking the evolution of the 1980 recession.

The distinction between auction and customer markets by Okun in

*BPEA, 2:1975* is as important to economic theorists as Okun's Law is to short-term forecasters. That paper provided a verbal model of pricing practices in product markets based on long-term relations between sellers and buyers and of wage setting in labor markets based on career connections between workers and firms. As developed further in Okun's *Prices and Quantities*, these ideas will help to provide the underpinning of a new and more rigorous macroeconomics for the 1980s.

In recent years Okun became convinced that inflation was a social problem deserving more serious concern than macroeconomists generally gave it. But he lost none of his earlier conviction about the heavy social costs of operating the economy below potential. He insisted that there must be a better way to slow inflation than deliberate recession. His inventive and articulate advocacy of tax-based incomes policies and measures to promote supply-side cost reductions reflected both his view that recessions cost the public hundreds of billions of dollars and his unwillingness to saddle the poorer members of society with the consequences of recession. His own research convinced him that a high-pressure economy encouraged firms to provide training for society's underprivileged and that a low-pressure economy eroded those gains.

When Okun challenged economists and the public to rethink their choice between equality and efficiency, he coined one of his many famous phrases, the "leaky bucket experiment," in which people are to reveal their trade-offs between equality and efficiency by stating how much they would be willing to tolerate inefficiency leaks from the transfer bucket en route from rich to poor. Other inventions of Okun the phrasemaker were the economic "discomfort index" that sums the inflation and unemployment rates, the "invisible handshake" to describe implicit contracts in product and labor markets, and "carrot-TIPped" incomes policies. A phrase we recall vividly, and one that is eerily appropriate at this moment, was his description early in 1975 of an economy in "free fall."

Okun's rare combination of careful thought and inspired writing style sometimes made us impatient that he took so long to finish his forthcoming book on prices and quantities. But that delay reflects his open door to colleagues, his open telephone to inquisitive journalists and policymakers, and his self-sacrifice in devoting so much of himself, without acknowledgment, to authors of *Brookings Papers* and to the education of decisionmakers and opinion leaders in Washington.

We end on a note of appreciation, because we had the good fortune to learn from Art Okun during twenty-eight consecutive meetings of the Brookings panel, and on a note of sorrow, because we must now face a future empty of his wisdom and counsel. The nation and world share our loss.

ROBERT J. GORDON AND ROBERT E. HALL