

Franco Modigliani's autobiography



I was born in Rome, Italy, the son of Enrico Modigliani and Olga Flaschel. My father was a leading pediatrician in the city and my mother was a volunteer social worker.

My school performance in the early years was good though not outstanding. Then, in 1932, a major trauma occurred. My father died as a consequence of an operation. I suddenly realized how deeply I loved and admired him and at 13 my whole world seemed to collapse. After this event my school performance for the next 3 years became spotty until I moved to Liceo Visconti, the best high school in Rome, and the challenge proved healthy and I seemed to blossom. Encouraged, I decided to skip the last year of the Liceo, passed the required difficult exams and entered the University of

Rome at 17 (two years ahead of the norm).

My family hoped that I would follow in my father's steps, entering a career in medicine. I was torn for a while, but finally decided against it because of my low tolerance level for sufferings and blood. Instead I chose law which in Italy, opens the way to many career possibilities. In my second year I decided to enter a national competition sponsored by the student organization (I Littoriali della Cultura) in the area of economics. To my surprise I won first prize and, although now I would hesitate to recommend that first essay as a significant contribution to economics, clearly, it served the purpose of establishing my current interest in economics. Unfortunately, under fascism, teaching in this field was dismal, and only with the advice of the few good economists I knew personally, and especially of Riccardo Bachi, I began on my own to read the English and Italian classics.

The Littoriali had put me in contact with young antifascists, and my political opposition to the regime began then. My involvement with my future wife, Serena Calabi, and her remarkable father, Giulio, who was a long standing antifascist also contributed. In 1938 the Italian racial laws were promulgated and at the invitation of my future in laws, I joined them in Paris where, in May 1939, Serena and I were married. I enrolled at the Sorbonne but found the teaching there uninspiring and a waste of time, so I spent my time studying on my own and writing my thesis at the Bibliotheque St. Genevieve. In June 1939 I returned briefly to Rome to discuss my thesis and receive my degree of Doctor Juris from the University of Rome. Shortly after this, fearing that Europe was going to be soon engulfed in a bloody war, we applied for an immigration visa for the U.S. and arrived in New York in August 1939, a few days before the beginning of World War II.

It became apparent that our stay in the U.S. would be a long one and I immediately began thinking on how best to pursue my interest in economics. I had the great luck of being awarded a free tuition fellowship by the Graduate Faculty of Political and Social Science of the New School for Social Research, an institution freshly created to give haven to the European scholars who were victims of the three fascist dictatorships. Thus in fall 1939, I started on a routine that was to last three years, of studying at night from 6 - 10, while working during the

day selling European books to support my family which soon included our first son: Andre. I worked hard but, nonetheless, remember that period as an exciting one, as I was discovering my passion for economics, thanks also to excellent teachers, including Adolph Lowe and above all Jacob Marschak to whom I owe a debt of gratitude beyond words. He helped me develop solid foundations in economics and econometrics, some mathematical foundations, introduced me to the great issues of the day and gave me, together with his unforgettable kindness, constant encouragement. In particular I owe to him that blend of theory and empirical analysis, theories that can be tested and empirical work guided by theory - that has characterized a good deal of my later work. Marschak also provided me with an experience that contributed to my development, by inviting me to participate in an informal seminar which met in New York around 1940-41, whose members included, among others, Abraham Wald, Tjalling Koopmans and Oscar Lange.

I consider that my formal training ended in 1941 when Marschak left the New School to join the University of Chicago, and I obtained my first teaching job as an instructor at New Jersey College for Women. My first published article in English, "Liquidity Preference and the Theory of Interest and Money", *Econometrica*, Vol. 12, No. 1, January 1944, which is also, substantially, my doctoral dissertation, and which I regard as one of my major contributions, appeared some two years later. The result of discussions in Marschak's seminar and of a running debate with Abba Lerner, it purports to integrate the Keynesian "revolution", then generally regarded as a total break with the past, with the mainstream of classical economics.

In 1942 I became an instructor in economics and statistics at Bard College, then a residential college of Columbia University, and came to appreciate the unique qualities of life in an American college campus, especially the intimate association with first rate students. In 1944 I returned to the New School as a Lecturer and a Research Associate at the Institute of World Affairs where together with Hans Neisser, I was responsible for a project whose results were eventually published in *National Income and International Trade*. During this period I also made my first contribution to the study of saving, which has since come to be known as the Duesenberry-Modigliani hypothesis.

In fall 1948 I left New York, having been awarded the prestigious Political Economy Fellowship of the University of Chicago as well as offered the opportunity of joining, as a Research Consultant, the Cowles Commission for Research in Economics, then the leading institution in its field. Shortly after my arrival I accepted an attractive position at the University of Illinois as director of a research project on "Expectations and Business Fluctuations". However, I remained in Chicago through the academic year 1949-50, greatly benefiting from my association with the Cowles Commission, staffed and visited by people like Marschak, Koopmans, Arrow, Simon, at a time when the profession was absorbing two important revolutions, one centering on the theory of choice under uncertainty, initiated by von Neuman and Morgenstern, and the other on statistical inference from non-experimental observations, inspired by Haavelmo.

My association with the University of Illinois lasted only till 1952 because of internal strife. During that brief time, I befriended a brilliant young graduate student, Richard Brumberg. With his collaboration we laid the foundations for what was to become the "Life Cycle Hypothesis of Saving". It was elaborated in 1953 and 1954 in two papers, one dealing with individual behaviour and the other with aggregate saving. After we had both left the

University of Illinois, Brumberg had gone to complete his Ph.D. at the Johns Hopkins University and I joined Carnegie Institute of Technology, now Carnegie-Mellon University. The "aggregate" paper was only published in 1980 in my *Collected Papers* because the shock of Brumberg's untimely death in 1955 sapped my will to undertake the revisions and condensation that would have been required for publication in one of the standard professional journals.

My association with Carnegie, which lasted until 1960, was a very productive one. In addition to completing the two basic papers setting the foundations for the "Life Cycle Hypothesis", I collaborated on a book dealing with the problem of optimal production smoothing, and wrote the two essays with Miller on the effect of financial structure and dividend policy on the market value of a firm. I also published a paper with E. Grunberg on the predictability of social events when the agent reacts to prediction, which later was to provide one of the pillars for the "theory of rational expectations". All of these contributions represented, to some extent, the coming to fruition of seeds started during my research on "Expectations and Business Fluctuations".

In 1960 I was a visiting professor at the Massachusetts Institute of Technology, to which I returned after a year at Northwestern University, and where I have remained ever since. Supported by this unique institution and its unique colleagues, I have pursued the interests developed earlier in macroeconomics, including criticism of the monetarist positions, generalizations of the monetary mechanism and empirical tests of the "Life Cycle Hypothesis". I have also branched out into new areas and, in particular, international finance and the international payment system, the effects of and cures for inflation, stabilization policies in extensively indexed open economies, and into various fields of finance such as credit rationing, the term structure of interest rates and the valuation of speculative assets.

In the late sixties I also had a major responsibility for designing a large scale model of the U.S. economy, the MPS, sponsored by the Federal Reserve Bank and still utilized by it. Finally, I have participated actively in the debate over economic policies both in Italy and the U.S., concentrating lately on the deleterious effects of the huge public deficits.

This autobiography was written at the time of the award and later published in the book series *Les Prix Nobel/ Nobel Lectures/The Nobel Prizes*.