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Franco Modigliani

A Mind That Never Rests

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and

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Foreword by

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B'H

*Dedicated to the memory of my sister, Esther;
to the memory of my parents, Henoah and Sara
to my children Naomi and Avi and
their spouses Marc and Tova;
to my grandchildren
Elki, Batya, Chanoch, Devorah, Ephraim, Ayala, and Jacob;
And to my wife, Miriam;*

*And to that Righteous Austrian-German Officer who took my immediate
family to a hiding place just days before the last transport to Auschwitz,
where most of my family perished*

–M.S.

*To my wife Noreena,
to my children Devi, Shanti, Hari, and Rani;
and to my grandchildren Soham and Lakshmi*

–L.R.

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Finally, we dedicate the book to our grandchildren. They are a joyous gift and blessing. We thank them for urging us to "Get it done already!" But I will ask them to be sympathetic, because another book project is moving from the back to the front burner.

And now welcome to the world of Franco Modigliani.

Preface

The theologian Abraham Joshua Heschel tells of a failing blacksmith whose customers were dwindling away. The blacksmith sought advice from the rabbi who told him, "My child, you have learned your trade well. You can forge the metal, place the anvil, strike a smart blow with the hammer. But, alas, you have not learned to kindle the spark."¹ The purpose of this book is to explore the life and the intellectual harvest of a Keynesian economist, a writer of intellect and brilliance whose ideas found prolific expression in 14 books and 200 articles, assembled in six volumes of *Collected Papers*, a lecturer who spellbound his students and whose creative spark never dimmed even as he advanced in age. He was the only person elected as president of the American Economic Association (1976) and the American Finance Association (1981). Modigliani was also elected as President of The Econometric Society (1962) and was honorary President of the International Economic Association. He had three loves that pervaded his life: Serena, his wife,² economics, and two countries: the United States and his country of birth, Italy. As for Modigliani's love for Italy, the last words of his namesake (no relation), Amedeo Modigliani, the painter come to mind: "Italia! Cara, cara Italia!"

Modigliani never faced the problem that plagues scientists and writers – lack of inspiration and imagination. In the poem "The Circus Animal's Desertion," William Butler Yeats describes his loss of creativity, which limits him to rehashing old themes. "I sought a theme and sought for it in vain, I sought it daily," and in the closing stanza Yeats resigns himself to his barren state. "Now that my ladder's gone, I must lie down where all the ladders start."

Joseph Ben Halaftha once famously remarked that since creation God is busy constructing ladders for some to ascend and others to descend.³ For Modigliani, a free thinker that he was, the ladder was delivered by Jacob Marschak, his mentor, who took him under his wing at the New School for Social Research (now known as the New School University) in New York.

Howard Gardner⁴ argues that for breakthroughs to occur, creative minds must have emotional and cognitive support. In Modigliani's case, the remarkable warmth radiated to him from his family, especially his wife and children. Contrast this with Victor de Riqueti, Marquis de Mirabeau, the

French economist of the Physiocratic school, nicknamed “Friend of Man,” (after his work “L’Amides Hommes,”) whose son, the famous revolutionary leader, lamented “The friend of man was friend to neither wife nor children.”

In terms of work habits, Modigliani loved comradeship and since he did not particularly itch to write, he took on many collaborators – about 40 of them.⁵ As Elhanan Helpman remarks, “collaboration is like a Ping-Pong game, where ideas are tossed back and forth. Except no matter who scores, you end up winning.”⁶

His formidable scientific virtuosity was as keenly honed as his wit. To a Texas audience he relayed how economics can be chaotic.

An engineer, an economist, and a surgeon argued over whose profession was the oldest: The surgeon spoke first and said, “Remember at the beginning when God took a rib of Adam and made Eve? Who do you think did that? Obviously, a surgeon.” The engineer, however, was undaunted by all this and said, “Just a moment. You remember that God made the world before that. He separated the land from the sea. Who do you think did that, except an engineer?” “Just a moment,” protested the economist, “Before God made the world, what was there? Chaos. Who do you think was responsible for that?”⁷

Modigliani gave us a firsthand account of his life and works in *Adventures of an Economist* (2001). The book’s three chapter headings: “My Story and America,” “Europe and the Monetary Adventure,” and “Italy and Me” outline Modigliani’s life. Modigliani consistently kept one foot on theory and the other on applications with equal zest, and continued to expand and articulate Keynesian economics when it was not fashionable to do so. In Keynes, he found permanence and invariability that he would fiercely defend against the classical school. This intellectual biography traces the initial conceptions and evolution of Modigliani’s seminal contributions, which are characterized by depth, unity and scope. Franco Modigliani died at 85 years old on 25 September, 2003 in Cambridge, Massachusetts, while working. He requested that his body be cremated and have his ashes spread over the Atlantic Ocean near Cape Cod. He is survived by his wife, two sons, Andre’ and Sergio, four grandchildren, and three great-grandchildren.

Foreword

Robert M. Solow

Reading some more about Franco Modigliani and his work will be good for you, and for two reasons. The first is that you will learn about Franco, a real, non-bland person, and an excellent economist. (I can not bring myself to refer to him simply as “Modigliani,” even though I know how to pronounce it.) I have said on other occasions that being Franco’s friend was not for sissies. He was always engaged, passionately devoted to his work, especially to whatever he was doing right now. If Franco was interested in some piece of theory or practice, he took it as a sign of inexplicable personal deficiency on your part if you were not as intensely interested as he was, or if you made the obvious error of thinking that your hot topic was hotter than his. He would try to set you right with great kindness and an encouraging smile.

There was also the discouraging certainty that, while you were watching a ball game or mowing the grass, Franco was working at his hot topic, and finding something new to tell you about next time.

The very same characteristics made Franco a wonderful colleague and a brilliant economist. There was never a dull moment where he was involved. Nobody ever described Franco as non-judgmental. He had a well-developed sense of right and wrong – in which Serena’s opinion played an important role – and he was as much of a bulldog on moral issues as he was on intellectual ones.

This part of his intellectual and moral life took up an extra amount of space because he had two countries to worry about and two sets of policy issues to think through and evaluate. It could be exhausting, but it was always lively and fascinating and, above all, involved.

The second reason why you should want to read about Franco and his work is that doing so will put before you an idea of what macroeconomics can be, an idea that you would not absorb from studying the rather desiccated reality-resistant discipline that modern macroeconomics seems to be intent on becoming. This is not the place for me to expand on this contrast. It is not a matter of theory versus empirical work, or of narrow methodological and epistemological disputes. It is more relevant to say that Franco’s vision of the macroeconomy is

populated by consumers and their families, investment committees and their bankers, wage-earners and their organizations, and not by one lone representative agent who sweeps under the Ramsey integral all the conflicting preferences, varying expectations, incompatible beliefs, and different statuses that seem to be in play in the economy at large as it fluctuates.

Macroeconomics Modigliani-style – or Modigliani-and-friends-style – is not necessarily informed by careful psychology and sociology. Maybe it would be better if it were. But at least it avoids terminal blandness by allowing for the interaction of recognizable interest groups with their own theories about the economy around them.

Franco Modigliani was a Keynesian, his own kind of Keynesian, not exactly the same kind of Keynesian as James Tobin, say, or others I could name. It is important to understand, however, that the contrast I am drawing between Modigliani-style macroeconomics and optimizing-representative-agent-based macroeconomics has little or nothing to do with that old textbook warhorse, the Keynesian-Classical (or New Classical) dichotomy. I like to use the examples of A.C. Pigou and D.H. Robertson, economists whose beliefs were the direct objects of Keynes's attack, but whose general approach to macroeconomics was, in style if not in content, not so different from Modigliani's.

Neither is the distinction I am making related in any way to slogans about "micro-foundations." There are many ways to incorporate any restrictions imposed by micro-behavior on an aggregative model. The life-cycle hypothesis does that in its way with respect to aggregate saving; the Modigliani-Miller theorem does it in its way with respect to aggregative investment behavior. In truth the shoe is on the other foot: the notion that the extreme and tendentious representative-agent version of the Ramsey model is a useful embodiment of the wish for micro-foundations will hardly stand up to sober reflection. The less formal but more accurate approach of Modigliani (and Tobin and others) seems more likely to yield a macroeconomics with meaning and verisimilitude.

Franco was not much given to purely methodological disputation. He simply chose to do macroeconomics in a way that seemed appropriate to the world he observed around him in Italy, the U.S. and elsewhere. In the course of doing it, he produced a distinguished group of students, and a large body of work that you can read about in this book and in his own writing.

They teach a lesson about macroeconomics that badly needs learning or relearning because it is a piece of simple wisdom that is in danger of extinction in a blaze of implausible Euler equations. Reading about Modigliani offers you an exemplary story that will help to preserve the memory of one good way of being a macroeconomist and of one extraordinary economist who chose it and lived by it.