

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

DEPARTMENT OF ECONOMICS

CAMBRIDGE, MASSACHUSETTS 02139

Citation of Professor Franco Modigliani
for the James R. Killian, Jr. Faculty Achievement Award
of the Massachusetts Institute of Technology
for the Academic Year 1985-86

(To be presented at Faculty Meeting, May 15, 1985)

The James R. Killian, Jr. Faculty Achievement Award was established by the MIT faculty in 1971 to recognize extraordinary professional accomplishments by members of the faculty. For the 1985-86 award, the committee is extremely pleased to announce the selection of Franco Modigliani, Institute Professor and Professor of Economics and Finance in the Sloan School of Management and the Department of Economics.

Franco is an economist of extraordinary professional accomplishments. He is also a colleague of exceptional insight, energy, and enthusiasm. Franco's liveliness in seminars is legend; his record of successful thesis supervision and collaboration with students is long and enviable. Both have contributed enormously to the continued success of the Sloan School and the Economics Department.

Franco was born in 1918 in Rome. He earned degrees at the University of Rome in 1939 and the New School for Social Research in New York in 1944. He taught and researched at half a dozen different institutions before settling down as a professor at the Carnegie Institute of Technology in 1952. In 1960 he began a short stay at Northwestern, interrupted by a visit to MIT for 1960-61. Happily, he returned to MIT as Professor of Economics and Finance in 1962 and was named an Institute Professor in 1970. His year as Killian Lecturer marks the

25th anniversary of that fateful first visit to MIT.

Franco's work has centered on the capital market and its role in macroeconomics. His most noteworthy contribution has been the formulation and empirical testing of the life-cycle hypothesis of consumption-savings decisions, a line of research he initiated in 1954 and on which he is still going strong. This has become the dominant paradigm for addressing the effects on savings of a variety of economic variables, including the rate of growth of the economy, the demographic structure of the population, and the introduction of the social security system.

His publication of the "Modigliani-Miller theorems" on the invariance of the total value of a corporation to its debt and dividend policies changed our understanding of corporate financing decisions. These theorems identified conditions necessary for invariance and led to the concept of value additivity as a consequence of sufficiently well-developed markets. Value additivity is a cornerstone of modern financial theory, a subject which has seen a remarkable development over the last 25 years.

From 1963 to 1968, Franco headed a project to build a theoretically based large-scale econometric model of the U.S. economy, with an emphasis on the role of policy. The model has been used to forecast GNP, the inflation rate, the unemployment rate, and other variables, taking into account the economic policies expected to be in place. The model is also used to examine the effects of alternative monetary and fiscal policies; the Federal Reserve Board still uses an updated version of the model. The theoretical coherence of the model probably explains its prolonged success.

Franco's imprint is also visible in a large number of other topics in macroeconomics: the workings of the monetary mechanism, the term structure of interest rates, inventory theory, and even, in a 1954 paper, the nature of equilibrium with rational expectations.

Franco has not been an ivory tower economist. His work is always of central importance for macro policy, and he has taken an active part in policy discussions and debates over the years. As a consultant, he has served the U.S. Treasury, the Federal Reserve System, the Bank of Italy, and the Bank of Spain.

The wide appreciation of Franco's work has been marked by his presidencies: of the Econometric Society in 1962, the American Economic Association in 1976, the American Finance Association in 1981, and the honorary presidency of the International Economic Association since 1983. He has received honorary degrees from schools in three countries. He has been a Fellow of the American Academy of Arts and Sciences since 1960, and a member of the National Academy of Sciences since 1973.

We at Franco's home at MIT are delighted to join the rest of the world in honoring this exceptional economist and fine human being.

Jonathan Allen

Gordon Brownell

Peter Diamond

Irwin Oppenheim

Suzanne Berger, Chair