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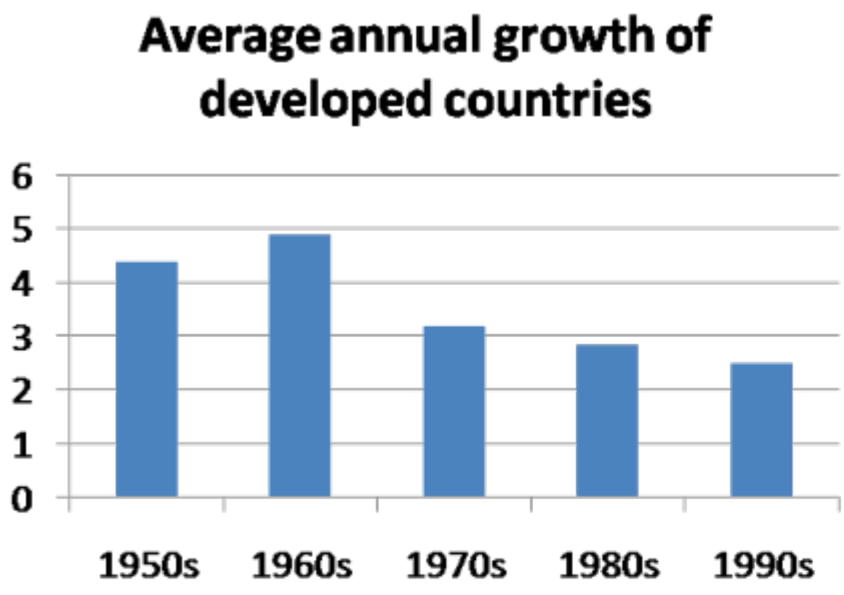
The lost generation

Matthew Yglesias catches Eugene Fama making a strange assertion:

Beginning in the early 1980s, the developed world and some big players in the developing world experienced a period of extraordinary growth. It's reasonable to argue that in facilitating the flow of world savings to productive uses around the world, financial markets and financial institutions played a big role in this growth.

The assertion about developed countries is, of course, entirely wrong. From Angus Maddison's dataset:



And as Matt points out, the giant success story in the developing world was China, where the driver was the end of Communism — not modern finance. Actually, it's even more absurd to give finance the credit than Matt realizes: China has not been experiencing net inflows of capital, partly because *it has maintained capital controls*, effectively insulating itself from the whole finance thing.

So why does Fama believe that something wonderful happened around 1980? Part of it, I suspect, is that in his milieu the politically correct thing is to pretend that nothing good happened until Reagan came along.

And this has a truly weird effect in the American context: the best quarter-century of growth America has ever experienced, the postwar generation — which happens to be the era during which many of the founders of neoconservatism came of age! — has gone down the memory hole. After all, it's impossible that living standards would double under a regime of high marginal tax rates, generous minimum wages, and strong unions. So it just didn't happen.