The world economy is badly managed and thus doing badly. The financial crisis caused the most severe recession since the depression of the 1930s. The fall in output has been arrested but the recovery has been disappointing. If neither the crisis nor the weak rebound were inevitable, we must be suffering from policy mistakes. Either economic theory is sound but being badly applied or it contains serious weaknesses. In this book I will seek to explain what has gone wrong and the steps needed to put the world economy back on track for a sustained recovery.

The errors of policy have their sources both from failures to understand and apply the parts of economic theory which are sound and from failures in the generally accepted theory, which policymakers have sought to follow. The economic policies of the eurozone fall into the first category. For the zone as a whole, short-term fiscal policy should be aimed at expanding rather than contracting deficits, and my view is probably shared by a majority of economists. But there are two areas where, I think, theory has failed. The first lies in misunderstanding the causes of the crisis and thus the policies needed to prevent its repetition. The second is the failure to recognise, and thus be able to remove, the obstacles that currently prevent sustained recovery in Japan, the UK and the US.
With regard to the crisis, there are many issues over which the views of economists diverge, and many of the points I will be making are shared by others. At the moment, however, I seem to be more or less alone in my identification of the problems currently impeding recovery, a situation which I hope this book will change. If I am correct, the vast bulk of the current debate on economic policy is misdirected and new policies are needed to produce a more satisfactory recovery in terms of both its speed and its sustainability.

I aim to convince the reader that the financial crisis, the great recession which it produced and the failure to generate a strong recovery are all the results of policy errors in the management of the economy, and I will rely heavily on data in my task of persuasion. I will use many charts because these are often the easiest way to communicate the data’s messages. They will also provide pictures as I am mindful of Alice’s comment, when looking at her elder sister’s book and about to nod off to sleep to dream of Wonderland. “What is the use of a book,” she remarks, “without pictures or conversations?”¹ Even in the form of quotations, I have been able to include only a limited amount of conversation, but to compensate for this and console readers for its absence, they will find plenty of pictures.

¹ From Chapter 1 of Alice’s Adventures in Wonderland by Lewis Carroll.