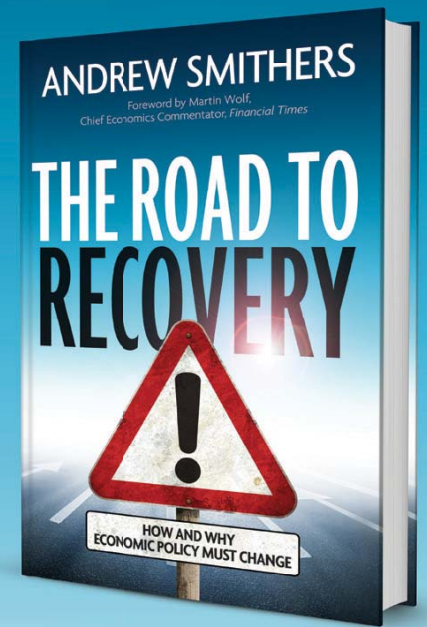


# THE ROAD TO RECOVERY

## HOW AND WHY ECONOMIC POLICY MUST CHANGE

# ANDREW SMITHERS



**Renowned economist Andrew Smithers offers prescriptive advice and economic theory on avoiding the next financial crisis**

The financial crisis caused widespread misery and the greatest loss of output and employment of the post-war era. The subsequent weak and faltering recovery has prolonged the pain. In *The Road to Recovery: How and why economic policy must change*, Andrew Smithers shows that both the crisis and the weakness of the recovery are the result of poor policies based on faulty economics.

It is vital that governments and central banks can be persuaded to abandon the misconceptions on which their current policies are based. *The Road to Recovery* explains, in non-technical language, the major change in our thinking that will allow the world economy to recover and to prevent another financial crisis.

There has been a dramatic change in the way managements are paid in the UK and the US. Incentives have changed and this has naturally led to a change in behaviour. This key problem is being ignored. The current management incentives are not only the reason for the massive gap between high and average pay but also for our economic stagnation. Attempts to generate growth, while ignoring the cause of this inaction, threaten to create another financial crisis.

In his foreword Martin Wolf states that Andrew 'has an apparently uncanny – indeed downright infuriating – tendency to be right'. Readers need to understand the errors that are currently being made in order to persuade policy makers to change tack and, in case that fails, to be warned and take action to reduce the costs of the financial and economic troubles that otherwise loom ahead.

## ABOUT THE AUTHOR

**Andrew Smithers** is Chairman of Smithers & Co. Ltd. and is a leading expert on financial economics and global asset allocation. His forty-five years' experience in international investment includes twenty-five years at SG Warburg & Co where, amongst other roles, he ran the investment management division, and over twenty years as head of his own investment consultancy firm, Smithers & Co. based in London. He has written three books on international finance: *Valuing Wall Street*, co-written with Stephen Wright, published in 2000; and *Japan's Key Challenges for the 21st Century*, co-written with David Asher, published in 1999. His book *Wall Street Revalued - Imperfect Markets and Inept Central Bankers* was published by John Wiley & Sons, Ltd. in July, 2009. He is also the author of Chapter 6, "Can We Identify Bubbles and Stabilize the System?" in *The Future of Finance: The LSE Report*, published by The London School of Economics and Political Science in September, 2010. Andrew is a Trustee of the Daiwa Anglo-Japanese Foundation, a Fellow of CFA (UK) and member of the Advisory Board for the Centre for International Macroeconomics and Finance (CIMF) at Cambridge University.

As head of Smithers & Co., Andrew has helped pioneer the application of academic analysis of financial economics to investment management. He is well known for his work on valuing markets, including the application of 'q', for his pioneering studies on the distorting impact of employee stock options on US profits, and for work on showing the understatement of Japanese published profits compared with US ones.

[www.smithers.co.uk](http://www.smithers.co.uk)

# PRAISE FOR THE ROAD TO RECOVERY

*"This remarkable work deserves the widest possible audience. I cannot recall a text so full of astonishing evidence, sharp insights and unconventional arguments. Smithers quotes Cassandra as a kind of role model. She has 'the three typical attributes of a sound analyst: Her forecasts were correct; she made no claim about their timing and her views were invariably ignored.' The last condition must be avoided at all costs."*

**—Jonathan Steinberg, Walter H. Annenberg Professor of Modern European History, University of Pennsylvania, Philadelphia**

*"With Western economies continuing, at best, to move sideways in the aftermath of the 'Great Recession', despite conventional fiscal and unconventional monetary policies, in his new book Andrew Smithers identifies the missing ingredients to economic recovery. To do so he draws impressively, in his scholarly yet entertaining style, on both economic theory and historical data, lambasting policymakers for their reliance on defunct theory. A must-read, offering an illuminating insight into current economic debates."*

**—James Mitchell, Professor of Economic Modelling and Forecasting, Warwick Business School, University of Warwick**

*"Andrew Smithers's latest book is tough, argumentative, entertaining and deep. It is all that you would expect from someone with his long track record of incisive thought, iconoclasm, and – as Martin Wolf's foreword reminds us – simply being right most of the time. The core of this book is the argument that the way we pay managers in the USA and UK is drastically distorting the economy, and that this will be a major impediment to sustainable recovery."*

*Andrew's arguments are not just abstract theorising. Everything he says is backed up with data (the book contains no less than 128 charts), many of which reveal features of the economy that most of us either never knew, or would prefer to forget.*

*Those who take themselves too seriously, and do not like to see their own analysis drastically undermined, will not like this book at all. But those who want to take arguments back to first principles, and are prepared to address new ideas and new data, will find it a rich source of brain food."*

**—Stephen Wright, Professor of Economics, Birkbeck College, University of London**