

Introduction by Sir Michael Bichard

Some of you will know by now why we exist. That is to help all of those involved in government to be even more effective and we do that by researching and learning around the big challenges which are facing Whitehall and Westminster. So between now and the end of the year we will be reporting on a range of issues which will include managing political transitions, NBPBs, the role of the centre of government, joined up government – will it ever happen – and of course government in a recession.

In all of those activities, we are very keen to draw on and learn from international experience, all of which of course explains why we are so pleased to have with us tonight Goran Persson. Goran was Prime Minister of Sweden, as many of you will know, from 1996 to 2006, having previously served as Finance Minister and the Minister for Schools. He led the Social Democratic Party, which is a centre left party, supporting social welfare provision and progressive taxation. The relevance of his experience and Sweden's experience to the UK at the moment is obvious, when I say that whereas in the 1980s, Sweden boasted the largest budget surplus of any OECD country. By the early 1990s it reported the highest budget deficit among the group of 30. Following a major reform programme, Sweden reduced its debt as a percentage of GDP from 84.4% in 1996 to 44.6% in 2008. For comparative purposes, and I know you will hold these statistics in your head, the UK public sector net debt in 2009 is 55%, or 65% if you include financial sector investments.

So once again we see that our current circumstances in the UK, although serious and not unprecedented, neither here nor in the international community and it is important I think that we are prepared to learn from others' experience, not least in the run up to the 2010 election. So we really are, Goran, very privileged to have you here with us tonight. We are very much looking forward to hearing more about how Sweden settled its own fiscal challenges. Goran is going to take

questions at the end of his contribution and will chair that part of the session himself. So there is nothing left for me to do than to introduce you to Goran. Thank you.

[Applause]

Speech by Goran Persson

Thank you Michael. Thank you for giving me this opportunity to address such a distinguished audience. I will reflect upon the Swedish experiences from our crisis because it was our crisis. We designed it on our own and we created it on our own. We were, if not alone internationally at that time, there were not so many countries experiencing that type of problem. It was Sweden, it was Canada, it was Finland and perhaps a couple more. Today it is a different picture. Many countries have the same problem as the UK, we must remember that. It is obvious how it is linked to the international crisis but it is also obvious that the international crisis has come to a turning point, the worst is behind, and probably we stand in front of a quite long period of economic growth.

When we started, in Sweden, we had the year before I became Minister of Finance, a deficit around 14% GDP. I started with 12 point something. We had a debt that doubled over a few years and it is easy to double a debt, I can assure you, and it is extremely painful to halve it again, I can assure you. The problem is that the debt service is not often regarded among the electorate as a real expenditure. That's the problem. It is a real expenditure. What is ahead of us just now is a completely different story compared to the Swedish one. I could take responsibility for our programme in a time when I had lower interest rates as a reward; constantly lower and lower interest rates. We started with a 10 year bond that was 450 base points above the German one because of lack of credibility for our ability to handle the public finances. When we started our programme, gaining results, we were rewarded by lower interest rates. So the

fiscal contraction was balanced by a monetary stimulus. That is important to remember. What you have ahead of you is higher interest rates; not only you, but the rest of the world as well. It is globalised now and you will follow, even if you have an independent central bank. You will follow Frankfurt and the others when they go for higher interest rates. The problem ahead of us, in Europe, the UK, the US and many countries, is that unemployment is still rising. So this Autumn and next Spring will be a fight between Government and central bankers about the right time to go for higher interest rates. In Frankfurt, defending the new currency, they have to stick to price stability – it is part of their way of building credibility. I am convinced they will start raising the interest rate quite soon. But in the other corner you will have twelve, thirteen, fourteen other European Governments constantly claiming ‘don’t do it’ because unemployment is still on its way up. On top of this doing reinforcement of public funds, reducing expenditure, and also increasing taxes – it is a risk process of course. But, on the other hand, not doing it is probably even more dangerous.

That was my choice, so to say, when I became Minister of Finance. I knew that going for a programme of this kind would not be popular, and everyone who I met as a politician knows one thing – being elected is not enough. That is not the masterpiece – it is being re-elected. And I had to ask myself and my colleagues in the leadership of the party, what is the forecast for being re-elected four years from now if we do not take action? Zero. What is the probability of being re-elected if we go for a reinforcement programme? Very small? A good chance? What did we prefer? Yes, put our jobs and offices at stake, perhaps losing them, but after having done the right thing. To lose your position after having done nothing is humiliating. So we did it.

My idea was, do not wait, do not confuse things, because it does not take a genius to realise what the problem is. If you have a deficit, as we had, of 12%, 13%, to reduce that takes both cuts and tax increases – nothing is popular with the electorate, but do not pretend that there are other ways to go. The difficult

thing is not to see what to do, the difficult thing is to do it. That goes for your own private economy, that goes for a small company, that goes for my farm I can assure you, and that goes also for the national budget. The difficult thing is to do it. It is a pure, political task, it is a pure, political process. Of course there are different options on the way, so to say. But if you do not want to take the risk, if you are not prepared to put your office at stake, you can never do anything to solve the problem. You have to take the risk.

So we went ahead. The first thing I said was, a low deficit is a prerequisite for economic growth. Sometimes that discussion is also confused because many think it is possible in the long run to combine deficit with economic growth. It is for a while, but sooner or later a deficit turns into a debt, a debt turns into lack of confidence in the market, and that turns into higher interest rates. Higher interest rates will put pressure on investment, and investment will put pressure downwards on economic growth. Our economies work best when inflation is low, when interest rates are low, when the deficit is under control, and when debt is manageable. The so-called Maastricht criteria are a good summary of good economic performance. There will be no sustainable, economic growth without public finances in order.

I also want to add, because we have seen it in the Baltic States, we could also have taken the Swedish case from the 1980s. Yes, we had a quite good surplus in our finances. But that was because of consumption that the private households had borrowed money to be able to maintain. And the current account was disastrous. I often say that the current account is underestimated and neglected when we discuss the nation's economic situation. You cannot go on with a deficit in the current account for ever as that will punish you sooner or later. Look, for instance, at the freefall cases just now – the Baltic States, with a tremendous economic growth rate for a couple of years and also a good public financial situation. Latvia was extremely close to qualifying for membership to the Euro zone; a year later they collapsed. Everything was built on borrowed

money to the households and they started a boom and bust, creating quite big tax revenues. So from that perspective we must be prudent. The current account must be under control. And still that problem has not been approached during this financial crisis. If you look at the imbalances in the world economy it is quite frightening, not least in relation to China, the US, the current account, the oil-producing countries, and those who are consuming. It is a disastrous situation which is not yet being addressed.

We decided to go for a programme and I tried to convince everyone I met that this was also a prerequisite for political strength, because I was, as the newly-appointed Minister of Finance, given the task of travelling abroad to borrow money to finance the deficit in the Swedish public finances. I remember the first time I came to London as Minister of Finance and met with the young, sneering boys sitting there – 27, 28 years old. I went to Wall Street and met the same group. I went to Paris, a little bit more polite, but nevertheless [*laughter*] the same group. And I realised they decided, literally, about how much we could go on with our public expenditure. I had the task of telling them about our reinforcement programme and I knew if I was skilful enough they would lend me money. If I was not so skilful, they nevertheless would lend me money, but it would be extremely expensive.

I said to my Prime Minister at that time, this is humiliating, this is dangerous. If we go on like this, in the end people have no reason to vote for us at all because others are deciding our future. And I said those who are in debt are not free. That is something that poor people have always recognised. Now it was a rich state, a rich country, and it was by mismanagement of public finances that we were in debt and not free; we had to ask others. And I will never forget when a young American asked me what our unemployment benefits were and then said to me was that not a little bit too generous. And I almost told him that it was none of his business, but I suddenly realised it was, and that was the problem.

Then, after having realised this, we started with our programme, and the first and perhaps most important thing was to say that if we fail we will resign. It is so important that we are prepared to put our offices at stake. That was easy to say because it was obvious. If we had failed we should have been forced to resign, so why not turn it around and say it the other way. We are prepared to resign if we fail with this task. That sent also a signal that was important; there were people that were responsible for a programme, you could identify them, and I was the main target. It was not pleasant, I can tell you. As long as we talked about restoring public finances it was quite easy to have support, and the discussion and the decision period, then there follows with the lag of the implementation period. And then it is for real – lower pensions, lower unemployment benefits, lower child care resources, everything, literally everything. Then they started to mobilise, because in the beginning we were not rewarded by the market with lower interest rates. And even my own party decided to go for an extra party conference with the aim of replacing me – that was obvious. Two thousand three hundred different amendments were sent into the party conference just to destroy the whole programme; you can imagine. But it took a year, according to the regulations and the statute of the party, to call an extra party conference, and during that year the programme started to work. And when the party conference gathered the situation was completely different. Instead of replacing me they elected me as party leader and appointed me as Prime Minister. It tells you something about timing [*laughter*], and how difficult politics is. Be prepared to put your office at stake; that is necessary to say.

Then, set up goals. That was something we had not planned from the beginning. But I was inspired by the success in monetary policy. Setting up inflation targets, communicating them, sticking to them, taking measures to live up to them, it was quite impressive. Could we not do the same thing for fiscal policy? Yes, perhaps. And we decided in 1996 – we took office in 1994 – we shall have stabilised our debt. In 1997 we must have a deficit on the 3% level. In 1998 we shall have a surplus in public finances. We reached those goals, but it was not

by chance or by luck, it was because of hard work. The business cycle was against us during 1996; it would have been easy then to blame the business cycle and say, sorry, it was not possible to reach the goal because the business cycle is going down. You must all understand this is not possible to do. Instead of that we went to Parliament with even harsher measures. That was painful, and that was the tipping point because after that the interest rates began sharply to fall. So stick to your goals. Set goals that it is possible to reach, but difficult to reach, and then you are credible. Because in the end, a lot of this type of restructuring will be a question of communication. Remember I said it is a pure, political issue. You must be able constantly to communicate, and you must be able constantly to explain what you are doing – message discipline.

For us it was also important to say, do not let vested interests protect their part of the public finances. You do not have any interests of that kind in the UK, I am convinced [*laughter*], but they were present in Sweden, I can assure you. So therefore we started the debate from another perspective – not about the measures but about the level of reinforcement that was necessary to agree upon. Forcing all political forces to have an opinion: is it a 10% reinforcement programme we need, or is it 8%, or is it 11%, or is it 7%? And that was a macroeconomic discussion. It was quite easy to unite upon, it is around 10%. Having that decision and the broad majority behind it, then it was time to present the package. Ten percent means a package of this kind, and then they said, oh this is not possible. Okay, I accept this is not possible, but what do you have instead because we have agreed this is the level to go ahead with. That worked. If you do not have a package, a comprehensive package, you will be open to attack from every vested interest. Now you can meet – we could meet – every interest, telling them you are not alone; look upon the disabled, look upon the unemployed, look upon our foreign relations activities – not least the Ministry of Foreign Affairs and all the embassies, they have had a quite harsh package to swallow. Mmm, that was the ultimate proof. If you do not have a package you will be constantly open to attack from vested interests.

Then it was necessary to have a fair distribution. In our political tradition, with a turnout of sometimes 90%, and with quite big groups in society dependent on the welfare sector, for instance, it is necessary to have a fair distribution. In a country with 50% turnout and where the richest are going to the polling station, it is perhaps not necessary. But in our political tradition it was. So we had also to present a package of taxes. Those who are better off are not always those who are hurt by reductions in pensions, the public pension system, or unemployment schemes, or what you want. So there was also a need for tax increases. Fifty/fifty was our proportions. I spoke with my Canadian friend¹ – and Canada has been a partner to Sweden in this fight for sound public finances for many, many years, we started the same year – and she told me that the year before they started their consultation programme they had tax increases. So if you add 1993 with 1994 and so on in Canada, they might also have a ratio between taxes and cuts that is not like the Swedish one, of course, but much closer to it than if you just take the reinforcement programme. I do not think it is possible in any democracy to do this without also using the tax instrument, I do not think so. So, fair distribution.

Then it was tempting for many to solve the public finance problem that the state had – and for us, with our decentralised responsibility for the welfare sector, the school system, the care of the elderly, the healthcare, everything is on the local level – with the right to tax for the local authorities. It is a decentralised system. So the state finances – the public finances connected with the government – could easily be solved if you just pushed the problem to the next level, but that was not possible to do. That was a constant fight during the whole process, to see that activities in school and healthcare were not hurt too much; they also had problems of course but it was necessary to see to them. Never solve your problem by giving it away to another authority to handle. You have to take care

¹ Jocelyne Bourgon, former head of the Canadian Public Service. For a detailed account of the Canadian experience around this time, see *Program Review: The Government of Canada's experience eliminating the deficit*

of the problem you have created yourself. We tried to do so. We were quite successful, but not completely successful.

Then we also said that when you communicate you must be very disciplined and honest – no book-keeping tricks. The idea was that I, as Minister of Finance, should be able to sit on TV explaining everything we did and never, ever lying, always being completely honest, always being open about the calculations, and the assumptions. How do we calculate this public expenditure programme? On which factors is it built? Because if you are honest there, there are no escape routes for yourself and there is a credibility dimension that should not be underestimated.

We also said, never, ever belittle the small sums. We remember that a billion starts with a million, and a million starts with one hundred thousand, and one hundred thousand starts with ten thousand, and ten thousand starts ... and so on. Because the people I am directing myself to do not understand what a billion is, they do not do that; it is difficult even for me to see it in front of me. So if we start mismanaging the small sums, we lose all credibility. You should be extremely careful about your own expenditures, extremely careful and prudent.

There was one trick I used. It was not a trick but close to it, and that was always being extremely conservative about the forecasts for economic growth – extremely conservative. Because it is not a problem to solve the public financial situation – if you are over-optimistic about economic growth then it solves itself, it is not a problem! Put into a calculation 5% annual growth over 5 years and be careful about your expenditure, and you will see you will solve the problem. But that is not realistic. I did it the other way round. If we thought that there were good reasons to believe in 2.8, and we said we calculated with 2.5 or 2.3 – no one ever attacked us for that. I have often reflected on that because it was so strange having a government constantly underestimating the growth performance. The opposite is the usual behaviour; when the government

presents their budget bill it is based on quite optimistic calculations. Here we had the government doing the opposite. And at the end of the year it was not 2.3, it was 2.9, or even sometimes 3.1, and that 0.8 gave a tremendous leverage in public finances. And I managed to do this for almost eight years, and that was not bad I can tell you. I did not lie, I was just cautious, I was careful, I was a little bit conservative with calculations – that is important.

We also said that this is an opportunity for structural reforms, but do not confuse budget consolidation with structural reforms. Tell the right story, so to say. If you want to reduce unemployment benefits because they are too generous, that is not for budget reasons or fiscal reasons, it is for structural reasons. If you need to create a better system, do so, and use the right argument, otherwise you will not be believed. The structural reform that was most important had not yet begun to work, and that was the new pension system. It is starting to work now. If I look around in Europe I can see many, many countries with a very bad economic situation, huge public deficits, and pension systems that have not been reformed. Pension systems that will be almost impossible to attack, because when they reform pension systems today in Europe it means they make them a little bit less generous, that is what the word 'reform' means in that context, let's be honest. But soon you will have a situation in many European countries, not least in southern Europe, where at least 50% of the electorate will be 50 years or older, and then to go for a reform of the pension system will be extremely difficult. Vote for me and I will reduce your pension. I do not think that will work. So we managed, in a bipartisan agreement between right and left, to agree on a new pension system. Now it is starting to work in Sweden. Next year, automatically, the pensions in Sweden will be reduced. It is not the level of indexation ... no, they will be reduced, they will be lower next year compared with this year, and that goes for everyone. That is the new system, connected to economic development. I said once, when I gave a lecture in New Zealand, that I think this system will not be so popular when people realise what we have designed. Now

it is up for a test. So those who have not yet started the discussion about the pension system, you have a huge problem ahead of you.

And I used to say that I believe that the European tax rate will converge roughly somewhere around 45, plus or minus two percent, and that is for demographic reasons. In many states, many nations, where they have a pension system that has not been reformed, the only possibility for maintaining pensions is to use taxes. If they are right, those who say that the greying population will also demand more health care – I'm not sure they are right, but those who are experts claim that – if that is right then we have a troublesome situation. In that period we shall reduce our deficits and create a debt that is under control, it is not easy. Structural reforms – yes, it is a golden opportunity. A new pension system, a new budget system – we had the most lax budget system in the whole European Union; that was perhaps one of the explanations for our situation. We created the opposite – the most disciplined, and it works. And we created almost a competition between government and the opposition as to who is the best caretaker of public finances. That is not a bad outcome for a process of this kind.

So still you can see, if you look at the public financial situation, even in this deep, economic crisis, Sweden has roughly a deficit of 2.5% and debt that is not growing, it is stable, compared year to year. But nevertheless, we have been able to expand our automatic stabilisers because of strong public finances. That is also a lesson learnt. I am not against deficits – of course not. If they are used for investments with a safe and quite quick return it is okay, you need to do that sometimes. I am not afraid of a deficit that is used for stimulating a downturn in the business cycle. But if you go for that type of policy you must also be able to create a surplus in the good business cycle, and that was our earlier mistake. We always were world champions at combating the downturn, but when it came to the upturn every group joined forces claiming lower taxes or new reforms. We managed during the years of fiscal consolidation and reinforcement to create a new norm for public finances, and that was 2% surplus over the business cycle.

It has worked so far, and also gave in this downturn very good support for our automatic stabilisers.

What have I told you? This is a pure political project – that is the first thing. The second thing – it is not so difficult to realise what to do, the difficult thing is to do it. The third thing – never, ever underestimate ordinary people's fear of change. They might be totally dependent on our programmes. Never, ever underestimate that. On the other hand, not taking action is risking everything and that is to betray those who elected you.

Finally, it was time for structural reforms, but they were not a part of the budget consolidation programme. We had them as a bonus because there was a general awareness that this must not happen again.

That is the Swedish story, close to the Canadian story. I survived this period of budget consolidation and I was heavily rewarded politically four years later, 2002, with a beautiful election victory because of the good times in Sweden compared to the awful situation we had eight years earlier. That is Sweden. Thank you for listening.

[Applause]

Question and answer session

Questions?

Q: The British Government also ran into trouble in the early 1990s and the budget deficit reached 8% of GDP, which was then a record. It implemented also the policy of fiscal consolidation and it acted both on taxes and on spending and the Conservative Government was voted out of office. So I wonder whether you

could perhaps reflect on the way in which you were rewarded and the Conservative Government of that era felt it was not.

There is one important difference, and I hesitate to say it because the Conservative Government in UK, they were in office, they were connected with the problem. In 1994, 1993 I represented the opposition. So it is much easier for an opposition that wants to go for a harsh programme, of course it is. It is much more difficult for a government. I belong to left wing political tradition. For us it has always been important to have a well functioning, redistributing, large public sector – it has been part of our political tradition. I was the one who killed my darlings – that was not a joke – therefore, it created credibility. But for the Conservatives, they had been in office for many, many years, and they should have taken action earlier and so on, it is not so easy. That does not mean that the same goes for today's situation in UK [*laughter*].

Q: Thank you for that gripping and fascinating record that held huge political courage. You said that it was a local Swedish problem but one you shared with Finland, which I observed, and Canada. And you noted at the beginning of your talk that this is a much more generalised problem. I guess the question: do you give any weight to the argument that says if you acted decisively in the way you did, all Governments actually now, the risk is you prolong the recession in profound ways and that you might tip the financial system, which is still very fragile, back into crisis. And therefore more moderate, more considered measures are needed.

It is the difference. And there might be a valid argument that you just described, but I don't know. I only know one thing: if you continue with today's policy you will for sure end up in a problem of that kind, perhaps a couple of years later, but you will end up there. I took a quick glance at your public finance figures, and already now you can see that the debt service is almost of the same size as your expenditure for transportation or for individual social affairs, around £30 billion.

That is now. With a strong and fast rise of debt, and if on top of that you also have a fast increase in interest rates – of course, now you have an authority taking care of how you are financing your debt and they are of course, as always when it comes to British authorities, of top class, I am convinced about that – but even they will sooner or later have to accept that today's extremely low interest rates will be replaced by something that is – and now we are talking about 100% – up from 2 to 4, and on the same basis, on the same broad base, and if the base continues to grow then the interest rates will be doubled. And that is a quite realistic calculation I think. It is easy to see that your debt service will be around £70 to £80 billion if you do not do anything, and then we are talking about the same resources as your school system, and that will be done in a couple of years. So that is the problem, and I have made this calculation for Sweden many, many times. We had an annual deficit of 240 billion kronor, 10% interest rate at that time, then we divided with the number of taxpayers and then with the number of months, and it ended up being that every year we had to add roughly 50 euros per month of tax, collected from those who were ordinary workers, in order to just pay the last year's debt service of the deficit we were producing. It is easy to do that calculation. Do it and you will realise soon that you will have to take action. Of course, the other way – it is a question of timing – perhaps you can wait half a year, a year, I don't know, but it is a very high risk to take, it is a risk. And politics is about making choices.

Q: You said that everybody had to bear their share of the pain in order to make the programme credible but presumably some bore more than others. How did you reasonably quickly come up with the strategy, decide where you were going to cut more deeply than elsewhere and what areas you were going to protect?

Which area did we protect? Now, we started with a general cut of all government expenditure of 11%; that created a very good momentum inside the organisation, I can tell you. Everyone realised that this was now serious, we had to do something, and they contributed, they contributed no doubt. And we tried to

avoid the school system, the healthcare system. If we had a choice, the transfers or the direct public consumption, we attacked the transfers. We started with the pension system and we made quite big reductions in the outgoing pensions. And those who are retired, they go to the polling station – you know that – and many of them have not yet come back. So that was painful politically, no doubt. But transfers before consumption, to reduce transfers before consumption, yes. And investments, investments, that is one of the strange things in national politics, everyone is talking about investment. Okay, as long as it is investment in the education system I can understand it, but investment in capital investments, many of them will not stand the cost-benefit analysis. But when the downturn comes everyone talks about now they must have more of the investments. Go for a very, very careful scrutiny of those projects and you will see many of them will not qualify, sad to say. They are regarded as a motor in the business cycle in the long term; as a driving force they are not always, at least.

Q: I will make a statement first of all about investments. We are always getting “invest to save” projects at this time, but what I usually find is the “invest” but I very rarely find the savings afterwards. The question was that you’ve said that the easy thing politically was to say what needed to be done. The difficult thing was then to do it. In public administration, as public servants delivering, there is a piece in the middle of that – you’ve got to turn that into how do you deliver. I guess the question is, within the context of your working, how did the public service, the civil service, respond to “how do you deliver these things”? What did they give to you about how you would achieve the savings?

They responded quickly and very competently, they were very loyal. We had the method of asking if we should reduce 11%, we asked for a proposal of 20%, and then we told them we must have the possibility of finally making our own judgement about what we should take away. And they came up, they came up, we had long lists: the first evening when I was appointed Minister of Finance, we sat until two in the morning, with long, long lists already prepared by the civil

servants – because they had followed the election campaign and realised what we had promised to do. So the day after, that was 20 September. Two months later I was prepared to go to the Parliament with the first reinforcement programme that was of such size that if we had stopped there I think we could perhaps have managed with that programme, although we did not know that at that time. So it was a very quick start, front loaded, and firm political support to Parliament.

At the same time we had a referendum about our membership in the European Union, and that was a little bit tricky. There were those who tried to say we have to do these reinforcements because of our membership in the European Union. I constantly said we can do this reinforcement because we can become members in the European Union, and they are helpful and supportive. But also the membership fee we had to pay to the European Union was enormous, and we also had to find room for those 21 billion we pay as a membership fee to the European Union in a budget that was already totally squeezed. That was a thriller, I can tell you [*laughter*], but we managed, we managed. It hurt the agricultural sector too much. Of course we had a principle at that time – every single euro that comes from the European Union to the Swedish agriculture sector that is more than they have received before, we take it back as some type of tax and we use it to finance the membership of the European Union. It almost killed Swedish farmers. Today, I am a farmer myself and I have realised that was not a wise policy. [*Laughter*]. So the European Union membership was important for us, and not least the convergence criteria and the Maastricht discussion and the convergence programme – very important.

Q: Following on from the last question, you talked about cuts across the board, were there also changes in the offer that the state provided citizens? And in what way?

You can take, for instance ... if you take the transfers, it is obvious. Then if you go into the school system, the healthcare system, it was a more rational organisation, fewer schools, fewer hospitals, because in the end it is about that. And it also had a tremendous effect on the housing programmes; we took away almost every subsidy we had in that sector so it was financed on the market. That was also extremely painful. We had a very generous subsidy system for housing in Sweden. It is not needed at all ... now, ten years later, no one is discussing it at all, and most of it was used to reduce high interest rates. You know, we had mismanaged our public finances, we created high interest rates. To afford to build new houses we had to subsidise the interest rate. That was the circle, and we broke it. And that was not popular.

Q: You talked a lot about cuts and tax breaks, do you think you got productivity improvements?

We introduced at the same time a yearly productivity improvement target, so every year, from that year and on, the programmes carried out in the different Ministries were always reduced by 2% annually. We start with that when we do our budget, because the private sector has an efficiency gain of that kind, or even more, so we just gave that as the first task for our public authorities. Start reducing by 2%. You shall continue to do the same work as the year before, no new tasks, no old tasks thrown away, you have to raise your productivity. It works. It has a big problem in one sector – the police forces have not found it so easy to have a gain in productivity. But yes, we had huge productivity gains. For the first time we created, after many, many years of constant expansion, an awareness of crisis, and there are many, many talented, intelligent, well-educated civil servants who have seen for many years that this is not meaningful to continue doing, and suddenly they were asked and they had ideas about how to reduce. It was quite easy the first round; the second round was more difficult, and when they do it every year it is quite painful. Consolidation might lead to ... some industrialised regions may lose their last jobs; they have had problems to

come back again because there was also a transformation of the labour market during this period. Health, no, we cannot see any effects. The quality in the school system, no, roughly the same as before; we are still the nation in the world spending the most on primary schools, with results that are not bad, not good. We are the nation, together with Israel, that is spending the most on research and development – 4% of GDP. We still have a tax rate of 46%, but we have an expenditure rate of roughly the same level. Long term unemployment, regional differences, there you can see it. And for a sparsely-populated country like Sweden it is a problem.

Q: I was a political adviser in Government recently. I was listening to what you were talking about in terms of this being a political project and the emphasis that you put on that. You talked about you've come in, you've won an election, you've got a mandate, you've spent a couple of months working up your programme, you presented to Parliament, there's approval. It is still, in some sense, the level of abstraction, even with the numbers attached to it. In the following 12 months, reality starts to bite. I just wonder if you can give us a flavour from a personal perspective about how, as an individual and as a political team, you hold your nerve during those 12 months where the pressure to compromise must be intense?

Yes, it was intense. You know, you are committed; you are tied to the mast. That was the idea. Going out, setting up goals, and saying I am prepared to set my office at stake, you tie yourself to the mast. Even if that is the rational description it was a very, very difficult period politically, and the opinion polls were awful, awful. And you know there is nothing as nervous as a parliamentary group when the opinion polls are going down. We started with an election result of 45%, and we were down to 28%. And then you of course ask yourself, have I made the right choices? That is an ongoing discussion you have. And I don't know, if the swing had not come about six months later, if I would have been standing there today, I am convinced about that because it was

so close, so close. And then I became Prime Minister, I continued as Prime Minister constantly advocating this programme; I never left the Ministry of Finance, that was my problem as Prime Minister because I was so connected with this programme, so it took at least four years before I became a normal Prime Minister, four or five years. It is difficult to transform a Minister of Finance to a Prime Minister [*laughter*] in Sweden. The Swedish tradition, as you know, is the Social Democrats have more or less been in office in Sweden for as long as the Conservatives were in the UK; it is therefore two different societies. So the Swedish Prime Minister has always been a left winger, and the Swedish Minister of Finance has always been a right winger, so they have covered the whole spectrum. And to transform a Swedish Prime Minister who is a right-wing politician into an ideological visionary, left-wing, internationally-oriented politician, that was difficult, I can tell you. But I worked hard, and five years later I think I was rewarded. It took five years, yes.

But we were judged, you see, and that is what you will also be in the UK, on the markets. We had the TV set on constantly, the text page from the markets, following the difference to German 10-year bonds; Germany was the best-performing economy in Europe and they were the most credible. We had 450 base points when we started and we took that gradually down, and when it starts to come down then you become very strong, at least in your own direct environment. For an ordinary person in the northern part of Sweden who has left his job and has reduced unemployment benefit, it was completely impossible to understand what we did. But that was at least for us a signal that it worked and we believed in the programme. You need to have such signals, you need to have them. But it was not easy.

Q: Of all the things that you did and that you led, what would you say looking back now has been the most sustainable of the changes that you introduced?

Hopefully the budget process, that was important. Secondly, the goal for surplus in public finances over a business cycle. That was a tremendous political victory as well because there had been a constant fight between left and right in Sweden as to who should save the money. Was it the public sector, or was it the private sector? And here we suddenly ended up in a unanimous Parliament, deciding that we should have the saving of at least 2% annually in the public sector. And if you have – take for instance your own country – if you have a surplus of 2% in the public sector, year after year, it is a tremendous resource you are building up. How can you argue for that? Yes, I say like this, every private insurance company has some type of a fund. We have the biggest responsibility of all against the most vulnerable in our society – the social insurance, the healthcare system, the pension system, the child care – those who are the weakest, we are responsible for them. We also need some type of a buffer. We also need to be able to tell them that every time the business cycle goes down, it does not mean that you have direct reduction cuts in your sector because we have saved a lot of money that we can use in the downturn. The same way as a private insurance company argues, I think that is something that so far has not been attacked. But as you know, political victories, if they live four years that is good, eight years is marvellous. If they live twelve, sixteen years, it is something really, really big that has happened. And so far, the pension system, next year we know if it is solid enough. And awareness of the need for sound public finances is still there, no doubt, and there is pride in having created that. But then of course I should have liked being compared with my predecessors with huge social reforms that have been much nicer in a way [*laughter*]. On the other hand, I secured their reforms, reinforcing the public finances, and that was not an unimportant task. That was my destiny.

Thank you.

[*Applause*]

Closing comments by Sir Michael Bichard

Goran, there are moments when it is necessary to say thank you more out of politeness than it is out of conviction, if only to prove that we Brits really are more courteous than the young French bankers. This has not been one of those occasions. When I hear Lord David Currie saying that he has heard a gripping and fascinating account then I know that we have been present at something rather special, and I think that was something rather special and has given us a huge amount to think about. We are hugely grateful to you for not only having come but giving a lecture of that sort of quality. So thank you very much indeed.

[Applause]

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