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Government designed for new times: An interview with Göran Persson

As Sweden's finance minister and prime minister in the 1990s, Göran Persson helped to end a severe financial crisis and restore the country to health. In this video, he explores the parallels with Europe's situation today and the new challenges of public-sector reform.

The reform challenge, then and now

We are in the beginning of a long process. It's difficult, yes. And what's lacking in Europe is the structural reforms. Governments are now attacking the budget deficit with cuts and tax increases, and they have to do so. But at the same time, they need to implement structural reforms. For instance, many countries among those that have huge problems have not reformed their pension systems.

And with an aging population, that is necessary to do, and necessary to be honest about, because that is also a painful reform to undertake. That is not addressed in many of the countries now under pressure—for instance, you can't see so much reform in the public sector. So, yes, governments have started. The budget reconstruction has started.

But the reform of society that is necessary to do at the same time to maintain the results you achieve when you go for reform in the budget process, that has not started. And that is as painful as the budget process—sticking to the program you have been presenting and fulfilling it, not during the first two years, not during the first three years, perhaps about five years or more. You are building confidence constantly, and it takes some time before that is recognized by the markets.

If you then fail after two years or something like that, you might slip back and lose everything you have gained. So it is not so difficult to realize what to do. The difficult thing is to do it. And that is the core of my message.

On public-sector productivity

There is a productivity gap, of course. It's huge. And if you, for a moment, think that the public sector is perfectly run, then you are committing a terrible mistake.

The public sector must be under constant pressure, reforming and going for higher productivity. And you can use different measures to achieve that. We started our reform

period in Sweden, our reconstruction of the public finances, with just a flat reduction of all public agencies that were state run by 10 percent, and with the bureaucracies that was quite easy to achieve. They did it quite quickly, because they were prepared to accept that they had to meet the crisis with higher efficiency.

If you just could start benchmarking in Europe, compare the Italian education system with the French, with the German—not only the results but also the costs. And you will see tremendous differences. Do the same with the health-care sector. Do the same with the child-care sector. Do the same with the care of the elderly, and so on. If you start with best practices in one European country and anticipate that the others will be able to follow, you will find tremendous room for both raising productivity and, at the same time, reducing costs.

So this is not anything that is strange. This is part of daily work. But for a public economy with constant growth and with the expectation of having constant growth, then of course you build into the system a lot of inefficiency that can be pressed out. Benchmarking, best practices—compare with your neighbors and you will be surprised, I can assure you.

The new look of reform

It's a completely new type of political task to achieve reform, true reform. Reform has so far meant that you add new resources. Reform might, in the future, mean that you are using less resources than before, but achieving more result. Then, of course, you don't know every time if you are doing the right things. It's much easier to go for a budget reconstruction, because you know what you want to achieve.

To go for reform of how to produce public services, and how to manage that, is something that is much more difficult. That you have to test. You have to try. And you have to be prepared to change again if it doesn't work.

You must remember one thing, and that is important: many of the services we have introduced in the public sector aim for a more fair distribution in society. When you introduce market-driven reforms in the public sector, you might end up with more productivity, more production, but a less fair distribution, and then you have created a new problem. We did it. We could have done it in another way. There were a lot of different measures to undertake. But the important thing is that you start the process, that you get a grip, that you deliver, that you are doing it.

Then afterward you can always say, in an academic discussion, “Yes, we could have done it in another way.” The difficult thing is not to realize what to do; the difficult thing is to do it. And if you continue discussing endlessly about how to do it, then you can be sure about one thing: the financial markets will decide on your behalf, and that is a threat to democracy itself. Because this is about democracy. Now, do it. Do it. Don’t wait. Because those who come too late will be punished by history. □

Göran Persson was finance minister of Sweden from 1994 to 1996 and prime minister from 1996 to 2006. This is an edited transcript of the interview, which was conducted by **Kalle Bengtsson**, a director in McKinsey’s Stockholm office.