

**Thursday 14 January 2010, George Osborne MP**

Thank you Anders for that lucid speech.

Anders and I have got to know each other well over the past few years, over the course of various meetings and discussions.

And while each country is obviously different, with different economic, fiscal and political contexts, this speech – and our conversations over recent years - shows the extent to which there is now a growing centre-right consensus that transcends national boundaries.

This consensus covers important issues such as our approach to public finances, welfare reform, social cohesion and fairness, and it has emerged from our values and from the changing world around us.

Let me illustrate what I mean by returning to some of the points that Anders made in his excellent speech.

Because the similarities with our approach are striking.

**First, Anders spoke about how fiscal consolidation in countries with weak public finances needs to begin as soon as possible.**

**As he put it so well, the longer one waits with the heavy lifting, the more difficult it becomes.**

**I agree with him and the emerging international consensus that acting early helps to establish credibility, which will in turn help to keep interest rates lower for longer and support a strong recovery.**

**The message could not be clearer – if you find yourself on the wrong road, you take the first available exit instead of carrying on.**

The Swedish government has demonstrated the benefits of taking this type of early and decisive action.

During the 1990s this approach enabled them to turn a 10% budget deficit into a budget surplus in just five years, staving off a fiscal crisis and helping to deliver strong economic growth for many years.

Here in the UK, I have been arguing consistently that we need to start dealing with our deficit later this year. We cannot afford to put off the difficult decisions for another year.

According to the latest OECD forecasts, the UK will have a budget deficit of 13.3% this year, the worst in the developed world.

That's more than four times Sweden's projected deficit, and that's because Sweden went into this crisis with a budget surplus – they had fixed the roof while the sun was shining.

Indeed, the OECD also believes in the importance of acting early and decisively to tackle the deficit.

Their advice to the UK is clear: “By developing and announcing more ambitious fiscal consolidation plans early and supporting them with a strong and credible medium-term fiscal framework, the government would strengthen the recovery.”

**As the flood of comments from analysts and credit rating agencies shows, there is a clear and present danger that the world will lose confidence in Britain’s economic policy.**

**That would push mortgage rates up, more businesses would go bust and the recovery would be undermined.**

**And yet the Pre-Budget Report actually increased public spending in the next financial year, starting in April.**

**Total spending is planned to go up by £31 billion in nominal terms, or by more than 2% in real terms.**

**During a period when the Treasury forecasts the economy to be growing by at least 2%, and with the largest budget deficit of any developed economy, that is simply not credible.**

**Everyone knows that the Government’s spending plans for next year are driven by a looming general election and not economic reality.**

**So, with the date of the general election increasingly likely to be after the beginning of the next financial year, that means we will need to make early in-year reductions in existing plans.**

**Of course our planned public sector pay freeze doesn’t begin until 2011, but let me give some examples of changes we could make much earlier in order to establish credibility and support a sustainable recovery.**

**Programmes that represent poor value for money, excessive spending on things like advertising and consultants, spending on tax credits for people earning over £50,000, and spending on Child Trust Funds for better off families will all have to be cut during the financial year.**

The second point that Anders made in his speech that I’d like to pick up on is the importance of credible fiscal institutions.

Again, Sweden provides us with evidence to support our own plans.

The Moderate Government created a Fiscal Policy Council that independently evaluates the sustainability of the public finances and future spending plans.

This fiscal architecture has played a key role in the successful deficit reduction strategy and maintaining market confidence in the Swedish economy in spite of the global downturn.

The benefits of this type of independent institution are clear.

They provide markets with greater reassurance about the credibility of fiscal plans.

And they create a rod for the backs of politicians like Anders and me, to help make sure we stick to our promises on spending and borrowing.

The net effect is lower interest rates and greater economic stability.

So we will follow Sweden's lead.

A Conservative government will create an independent Office of Budget Responsibility that will be up and running on a shadow basis before the first Budget:

The OBR will make recommendations about how much fiscal tightening or loosening it thinks necessary to have a better than 50% chance of meeting the Chancellor's mandate for the public finances.

And at every Budget and PBR, the Chancellor will have to give an account to Parliament about whether his plans are consistent with the OBR's recommendations.

As the independent Institute for Fiscal Studies have argued here in the UK, "creating a new independent body to forecast the public finances could help keep the interest rates at which the government is able to borrow low."

We have been engaging with the Swedes on design of this institution – the Chair of Sweden's Fiscal Policy Council recently spoke at an Institute for Government event with Sir Alan Budd, who I have asked to oversee the implementation of our plans.

The third point that I'd like to draw from Anders' speech is the importance of maintaining social cohesion whilst imposing necessary fiscal discipline.

To coin a phrase, we're all in this together.

Clearly, achieving fiscal consolidation will not be a straightforward process.

Here in the UK, many difficult decisions lie ahead, irrespective of who wins the next election.

Again, I think Sweden provides an important role model.

During their process of fiscal tightening, they worked hard to ensure that the spending cuts were equitably distributed.

Our approach is the same.

It's because of the emphasis we are placing on social cohesion that the spending cuts we've announced have been carefully designed to avoid hitting the poorest.

That's why we have said that we will concentrate government spending on child trust funds on the poorest third of families, saving £300 million.

We will keep child tax credits, but stop paying them to families earning over £50,000 a year.

And as I said at our Party Conference last year, we cannot even contemplate abolishing the 50p rate on the rich while at the same time I am asking many of our public sector workers to accept a pay freeze to protect their jobs.

The same commitment to fairness informs our approach to public services.

We've also announced that we will introduce a Pupil Premium as part of our Swedish style school reforms, so that funding is weighted towards poorer pupils.

And we will also ensure that more public health resources are directed to the most deprived areas.

This is the right approach.

Because, as I know Anders – and our modern centre-right colleagues from around the world - would agree, we must not balance the budgets on the backs of the poorest.

The fourth point that Anders raised, and which I want to briefly follow up on, is the importance of welfare reform to boost growth and get people back into work.

As you said, cutting marginal tax rates and improving incentives to work must play a key role in this process.

It cannot be allowed to stand that, here in the UK, people on low incomes face marginal tax rates of up to 95%.

And as the Swedish experience shows, action is obviously needed to overhaul our welfare system and provide people targeted support to find work and stay in work.

Our welfare reform plans are designed to achieve precisely this goal.

Under these plans, we will simplify the current piecemeal programmes into one single back-to-work programme for everyone on out of work benefits, provide new support for people on incapacity benefit, and open up the welfare system to new providers and approaches.

This is not only the right approach from a fiscal perspective, but as Anders said, it will also promote fairness by helping more people to participate in our society.

Let me finish by saying this.

Britain faces one of the most difficult fiscal challenges in our modern history.

If we're to get through this, we will have to pay heed to the lessons learned by countries that have overcome similar crises.

The clear leadership and decisive action taken by Sweden is a shining example of how fiscal consolidation can be successfully achieved by progressive governments.

We do this not for its own sake.

We do this to keep interest rates lower for longer.

We do it to bring stability and confidence to the economy.

We do it to avoid a fiscal crisis.

We do it to create a sustainable recovery – not just pump up another bubble.

This emerging international consensus will be an invaluable source of ideas and support as we tackle pressing issues at home and abroad.

We look forward to continuing this conversation in the weeks and months ahead, as we strengthen and broaden this coalition of interests.

Many thanks.