

We can learn a lot from the Swedes. When property prices collapsed in Sweden in the early 1990s, the government initiated a massive bailout of the banking sector. The Swedish economy rebounded relatively quickly, thanks in no small part to the government's vigour in addressing the banks' problems.

But an overlooked feature of the Swedish recovery was the extraordinary fiscal consolidation that the Stockholm government engineered. Sweden's budget deficit shrank from more than 11 per cent of GDP in 1993 to less than 2 per cent in 1997, marking one of the most dramatic consolidation episodes of the post-WWII period.

That adjustment has relevance for us today. Brian Lenihan's recent budget aims for a 6.5 per cent deficit next year, though many analysts expect that the outcome will be worse.

How did Sweden do it? Jens Henriksson, a former official at Sweden's Ministry of Finance and colleague of mine at the think-tank Bruegel, provides some answers in a recent essay.

For starters, the government provided unambiguous signals that it was committed to do something about the deficit. The Prime Minister took the lead and put his job on the line. Goals were set and the government stuck with them.

Second, the consolidation programme was designed as a comprehensive package. Presenting the consolidation measures in one package made it clear to all interest groups that they were not the only ones being asked to make sacrifices. As Jens puts it, "When one strong interest group complains, you are in trouble. But if everybody complains, you are not."

Third, the government communicated honestly with the public while the programme was running. As a result, the public knew that large sacrifices from everybody in society were required. People here have yet to get that message.