

Transcript: The full Gordon Brown interview

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Financial Times: Prime minister, the G20 is coming up in Pittsburgh [September 24 and 25]. In London you co-ordinated an international fiscal stimulus, which has had some success. So what do you want to see coming out of Pittsburgh?

Gordon Brown: Well, there's definitely been an improvement since April against what people forecast and, as far as the British economy is concerned, I would say that we are cautious but we're cautiously optimistic about the future.

But if you look at the position a year ago, last September and October, we had people predicting that the recession would become a depression with people thinking that their savings would be at risk as banks collapsed. We had very dire predictions about the levels to which unemployment could rise and we had this great fear in Britain at that time that mortgage repossessions would be very, very high indeed.

And I think over the last year what we've seen is that the banks have been stabilised but there are still big issues that I'm very happy to talk about that have got to be dealt with.

You've seen the world come together with what we never saw in the 1930s, which was co-ordinated action at a monetary and at a fiscal level, and you've had co-ordinated action also on standards in banking which is the first test really of whether the world can come together to create a regulatory system for the global economy.

And so, from where we were last September and October, there is definitely proof that when the world comes together it can make some difference. But it would be a historic mistake to think that we could now return to business as usual and it would be a missed opportunity of the highest level that would be the worst possible if we did not recognise that having tackled the instability of the banking system, we simply stopped there and did nothing more.

Therefore, for me, the challenge building in London and Pittsburgh is to achieve a level of economic co-operation that will stand us in good stead as we move through the next year. We need to be clear about how we can return the world economy to durable growth – I'm thinking particularly of the industrialised countries as far as the levels of growth are concerned, but obviously to the high levels of growth that people need to see in other parts of the world as well.

We need to be clear that there is still a great deal to be done about the banking and financial system if we are to assure people that trust can be fully rebuilt in the system and we need also to be clear about the sources of growth for the future and how, where possible, there can be co-ordination, but at least mutual understanding in our own individual national self-interest about what needs to be done to improve the chances of long-term growth through higher productivity.

Now, I think these are three big challenges for Pittsburgh. I think the world is recognising that co-operation is now a necessary element of future economic management. I think the world is also recognising that other countries benefit when individual countries are prepared to make

agreements with them that can stick. I think we're moving to a higher level of economic governance in the world more suitable for global economy.

I think that everything that I've learned from this crisis is that there has to be more co-operation in the future, not less, and this new way of governing the world economy, whatever it's called – some people talk about a compact for growth over the next year – is a necessary element of all countries coming through this very, very difficult period. So I think in these three areas, Pittsburgh is an important moment for the world economy.

FT: Let's reflect on the banking sector for a moment. You say that it would be a big mistake to think that you can go back to business as usual. But if you look at the profits of many of the major banks at the moment, it looks very much like business as usual, making lots of money. So what, in your view, is, a) wrong with that and b) needs still to be fixed?

GB: Let's deal with the problems that have got to be addressed and then see what the consequences could be for the trust that is necessary for a banking system to flourish.

I think the first thing is the governance of the banks themselves. Now, we've set up the Walker Review but it's absolutely clear you cannot have banks in a position where the main board members – in some cases even some of the executives of the bank – don't understand the risks that are being taken.

And there is still a worry that unless systems of governance are improved, not just in Britain but around the world, that we end up in a situation where, for example, banks are holding subprime mortgages from the US but they don't understand what the meaning of the asset is. So I think governance has got to be good.

FT: Just to clarify, prime minister, is that a criticism of individual boards or products?

GB: Well, it's certainly a criticism of products.

FT: But also boards, because you were saying they're not qualified.

GB: But hold on. The products were rated by credit agencies and, of course, we've got to be clear that big mistakes were made there. But, as many members of boards have recognised themselves, they did not have the information in a global marketplace on which to base their assessment of the risks that they were undertaking.

Now that's why I think you get quite strong recommendations from the Walker Review in Britain but that's why I think you've got to have common standards of governance throughout the world and it would be unfair if we had tightened up all the arrangements for governance in a global economy when other countries have not done so.

So one of the things that I'll be looking for at Pittsburgh is an assurance that the governance arrangements of financial institutions are going to meet the highest standards possible in the future.

The second is this question of remuneration because the first test, really, of the financial supervisory system is whether you can make a global agreement stick on principles governing remuneration.

I would say that we have now got to move faster. I regret the fact that we have not had from the Basel Committee yet the detailed implementation of the principles that were agreed in London. I understand all the difficulties because we're dealing with very many global financial centres, but I think you've got to be absolutely clear that remuneration has got to be based on long-term success, not short-term speculative deals, that there's got to be a clawback system in remuneration itself so that if things are not working in year two then there is a clawback that is possible as an example.

And I think we've also got to look at whether the capital requirements of individual institutions would have to be increased in situations where the regulator thought that risk was higher.

Now, these are principles that I think we can more or less agree and they came out of London in April. But they have not yet been implemented in the running of the institutions and they've got to be implemented as quickly as possible.

I would add a further thing that there is a debate, of course, about caps on bonuses and everything else, and I think Adair Turner himself who was discussing it said that in an international economy it's very difficult for one country to do something that other countries would then create a loophole for. But I think it's true to say that the debate will move on to whether the bonuses that are paid are, in general, too high a proportion of company revenues and profits. I think this is a legitimate debate for the G20 and the world community to have – [first], whether we are putting ourselves too much at risk because of the insufficient capital requirements where people are taking huge risks and, second, whether there's a case for looking at some agreement about what would be a justifiable percentage.

FT: Can you legislate on that, though, prime minister, or is this a matter for a code which would be international?

GB: The third issue I'd just raise on governance and the standards of banking supervision, by the way, is we have got to continue to deal with this question of regulatory and tax havens. We just can't have a world system that is fully operational in the interests of countries that are abiding by the rules if a few countries or a few zones in the world can just exempt themselves from the rules.

So I obviously want to see progress on all these areas at Pittsburgh, so does President [Nicolas] Sarkozy, so, I believe, do the United States of America, and I think it's very important that there is actual, practical change in the way that the financial institutions and individual countries are operating and not simply a promise for the long-term future.

FT: But just to be clear, prime minister, you do ally yourself therefore with what President Sarkozy has said about excessive remuneration and clamping down on bankers' bonuses?

GB: No, what I'm actually saying is that what matters is the detailed rules that you then come to agree and whether they're implemented. Everybody in April decided that we had to do more; we have made huge progress in some of the other areas where we reached agreement in April in London.

The IMF has been strengthened, the World Bank has been strengthened, the Regional Development Banks have been strengthened. In this area we have been waiting for the

detailed implementation of the principles agreed. Now, I'm saying that there's some talk about a cap and bonuses and everything else around that. I'm telling you, I think that is very difficult in an international environment. But there may be ways . . . that we could do better.

FT: Through higher capital requirements?

GB: I think Adair Turner is right to say that where a company is putting its shareholders – and indeed the economy because they're entangled with other companies – at risk, the regulator must have the right to insist on higher capital requirements. But there is also a legitimate debate to have [on] what the proper share of bonuses and indeed the type of remuneration is as a proportion of the income and profits of a company.

FT: Why is that a debate? Can I ask why that is a debate for governments?

GB: I didn't say it was a debate for governments. I said there's a debate that should be taking place on that.

FT: But is it a debate between governments or is it a debate for shareholders and managers of the institutions?

GB: It should be, but the fact is if one country ends up doing something that other countries are not prepared to follow because there is no debate taking place in that country, then it is very difficult to make change. And I think we have got to recognise that we're in an economy where institutions are so entangled with each other that the impact of what the behaviour is of one institution affects the other. And, therefore, in a large number of areas such as this you're going to have a global discussion.

FT: Can I just ask one question on this? Lord Turner, on this question of pay, seems to say that there was a prior question which is that actually these wholesale markets are not creating huge numbers of problematic profit for these institutions. Well, actually, we can do nothing particularly socially useful, and shouldn't one look at that fundamental aspect of the way the financial markets are working?

GB: Look, an issue did arise over the way the whole subprime mortgage market was developing and obviously people will now say that the way that these new products were developed were at the cost both of the people who bought them and at the cost of the economy as a whole.

In this question of the wholesale market, I think there is a legitimate issue about the fees that are charged for underwriting, for the mergers and acquisitions, but that is a debate. And there's an issue about the competition, the levels of competition that exist.

Clearly, because of what's happened in the financial crisis, there's fewer investment banks than there were, so that is a legitimate issue and I see some institutions are now saying that they're going to carry out their own functions in-house. So clearly competition is important to the banking system.

I do reject the argument that because we had to step in to deal with the problem of Halifax Bank of Scotland, that we're anti-competition. In fact, quite the opposite: we want to encourage as much competition and new entrants into these markets as possible.

One of the things that is more encouraging than we might have expected at the beginning of the year is that we still have a large number of foreign institutions that have not withdrawn and have stayed in the British market. We've lost some, of course, spectacularly, like Icelandic institutions, but there is a greater degree of foreign engagement than you might have expected at the beginning of the year when there was systematic new leveraging taking place involving people withdrawing to their host country.

FT: Do you agree with Lord Turner that the City of London is bloated and needs to be cut down to size?

GB: Was the financial sector overheated? We now know that of course is the case. But I think we have got very big financial, business, legal skills in London, and I'm one for saying that London is adjusting very quickly to the new world; that London will make itself fiercely competitive in the new global financial sector of the future.

And London has got great attributes which I think we mustn't ever downplay in location, the concentration of activities, and our historic advantages: the English language, the coincidence of having great professional and legal services alongside financial services. So I think the strategy for renewing London for future years is one of emphasising our strengths as well as dealing. . .

FT: So it's not too big and the market will take care of itself?

GB: Well, I think if I said it was overheating in the past, certainly there is adjustment taking place in the moment.

FT: Can we go back to the question of the quality of recovery? Do you actually think there is a recovery under way in Britain?

GB: When I said I was cautiously optimistic about the next stage, that is not suggesting that we're not vigilant and it's not suggesting that there are not big challenges that we've still got to meet. I think if people looked back as I said before on what was expected a year ago, I think the action that we have taken which is in my view an important defence of the role of government in crisis, action that was opposed in almost every case by large numbers of Conservatives in the House of Commons, that we were right to nationalise Northern Rock, we were right to intervene to deal with the problems that were faces by the two major banks, and we were right to lead the world in recapitalising our banks.

I believe we've been right to intervene to prevent unemployment being even higher, and I believe that people can see in the mortgage market itself that the level of repossessions is not as high as people were predicting only a few months ago. And that is almost certainly the result of the guarantees and protections that we have put in place that have enabled people to stay in their own homes even though they may have lost their jobs or may be facing some financial difficulty.

And on Wednesday, we'll be thanking large numbers of employers for joining with us in our youth employment initiative. And we're now going to be able to say that we will bring forward the date at which the guarantee is available to young people to get help if they've been long term unemployed, because we've managed to get some of the largest firms in the country to work with us.

If you look at the willingness of companies to take on apprentices, to have interns, but also to take on young people to fill vacancies that were available, it is the country coming together to deal with what could be a problem that I hope we'll be able to avoid... If there's a message that came out to me from the crisis of the 1980s and the early 1990s, it is if you allow young people to be outside the labour market for far too long, then you risk them being permanently unemployed. And we are not going to enter that situation now.

I wish there was an all-party consensus for these things, and I've tried on the New Deal and other areas to suggest that not just business but all of the political world could come together to support this. And I just cannot understand for myself why the opposition parties are opposing necessary action to keep young people in the labour market and to help young people get apprenticeships and college placements and university placements and to get jobs.

FT: Do you believe that the government and the chancellor has done enough to rein in borrowing or do you think that there should be further measures to cut the public deficit?

GB: Look, all these decisions will be the subject of discussion in the pre-Budget report, and you wouldn't expect me to anticipate what he's going to recommend. The fiscal intervention was necessary. It still is necessary, because there is so much uncertainty about the global economy and the path of growth generally. An exit from these fiscal measures would demand very, very careful timing. I believe one of the purposes of the G20 is to coordinate internationally how we deal with that.

I think the truth is that if you look at America, France, Germany, Britain, we're facing roughly the same levels of debt, perhaps ours maybe a little lower actually at its peak than some of these countries. And we'll all have to look at how we deal with deficit reduction and the issue of debt over the longer term. I think you've got to come back to this point, were we right to intervene, to ensure that the economy could avoid a deeper recession? Were we right to protect people where we could in the housing market and in jobs? Were we right to intervene to make sure that the banks did not themselves collapse? Not for the sake of the bankers, by the way, but for the sake of people's savings who depended on the banks.

And I think when people look back on the history of this year, they will say it was essential that we did these things. It's essential that we have a deficit reduction plan. We have taken very tough decisions already in the budget to raise the top rate of taxation...

FT: You're comfortable with that?

GB: No, nobody wants to raise taxes if they can possibly avoid doing so.

FT: You don't think you've lost the middle class vote there?

GB: Nobody wants to raise taxes but I think people like you want us to show, as we are doing, that we've got a sensible deficit reduction plan and one that is fair across the board to the population of the country. So on the one hand, people argue, well, there is no fiscal or deficit reduction plan that is strong enough. And on the other hand, people say that the measures we are taking are too tough. I should think you've got to get the balance right, but in a period of uncertainty, you've also got to look at what's happening. And the next stage for looking at these things will be the PGB.

FT: But don't you think, prime minister, that actually you won that argument about the measures that had to be taken? You built an international consensus behind that. All the major leaders accept that the bold fiscal measures that you led on, that you won that argument. The question now...

GB: They weren't just fiscal measures, they were monetary and bank stabilisation measures. If I may say so, what I think your question does not recognize is that there has been and still is a battle in this country about the advisability of doing these things. This week we're implementing a school leavers' summer guarantee. So we're saying to school leavers, we will make sure there is a place for you. Even if you can't get a job, we will make an educational place so that you are not going to be part of a generation that is long-term unemployed. As I said, we've got this guarantee for young people about them being given an opportunity for a job or training if they are themselves already unemployed.

I have to say that the opposition party in Britain opposes both these measures. I wish we had a national consensus that was similar to what you rightly say has been an international consensus on the need for fiscal action. And I just hope people will understand that these are difficult decisions we're taking all the time about creating jobs, about protecting people on mortgages. And at the same time, if I may just emphasise also, helping small businesses, because there are 100,000 small businesses that have been given help under the various proposals and programs that we've put forward, running into billions of pounds.

But again, [these are] the right things to do, but costly. Of course everybody must recognise that you cannot do these things without the investment in money as has happened in America and as is happening in the continent.

FT: You mentioned that there wasn't a national consensus on these things and mentioned the opposition several times. What do you actually think of David Cameron?

GB: As a person, I'm very happy to work with him. What you've got to ask yourself is what are the right policies for the future of the country? And if you are facing a recession, do you make a virtue of doing nothing? Which is what the conservative position [is] – withdrawing support from businesses, homeowners, and the unemployed. Or do you take the action that is necessary? Now, I think we've taken the right action.

Your question about the international consensus suggests that we're with all the other countries that are being prepared, [but] you know, that didn't happen in the 1930s. It might not have happened on this occasion had we not managed to work with other countries and get agreement that we should have measures that would protect and stimulate the economy. But it is unfortunate that when we had the promise of a national consensus on these measures last October, nothing actually came of it. And so you've got school leavers getting a guarantee at the moment from us that is opposed by the Conservative party. I think that's the wrong position.

FT: Every economist outside of government, whether the National Institute, the IFS, says once the recovery is soundly based, the government of Britain is going to have to have severe restraint for public spending which will involve real cuts over a period of years in departmental programmes. Do you accept that analysis?

GB: I've said repeatedly that there are tough choices that everyone around the world is going to face, and we are not exception. But you've got to start from a recognition that it was right and is right to take the action we are taking to make sure the economy moves forward.

Look, when markets fail and banks collapse, only the government is there to protect people against the worst ravages of a recession. We're right to continue this action because a premature exit from our special measures to deal with the recession could bring economic problems in its wake.

I said earlier that we've got to work with other countries to look at what is the correct and timely way of exiting from these special measures. And all of us, that's all major countries, I mean Japan and Italy, have got far higher levels of debt than we have as a proportion of their national income. Britain, America, France, and Germany have got roughly the same levels expected of debt, and we're going to have look together also at how we can deal with that problem over the next few years. But you've got to start I think from the central proposition that it has been and is the right thing to do and had the world not taken this action, we would have been in a far worse position.

Now, in Britain, there's a number of estimates, the chancellor is certain that up to half a million jobs could have been saved as a result of our action. I don't think anybody who's looking at the mortgage repossession market is in any doubt that things could have been severely worse had it not been for the intervention we've taken. And I think there's a lot of businesses that have managed to stay in business. I know how difficult it is and I've got real respect for all these businesses that have difficulties when their order books are themselves in difficulty, but the money that we have been able to provide as either deferment of tax or support for new investment I think has been critical to this and it's the right thing to do.

FT: The question I'm trying to get at is, the last two elections have been fought broadly speaking on cuts versus investment. Is the next election going to be fought on that basis?

GB: I think that the last two elections have actually been fought on who has the best economic and social policies for the future of our country, and I think as we look to next stage... look, what is that Britain has to offer the rest of the world? What is it that makes us confident about our export potential for the future? What is it that makes Britain one of the likely beneficiaries of this new global set of arrangements that we call the global economy? And it is clearly the high value added, the creative, the high technology, the custom-built goods and services. And it is clearly dependent on a higher degree of skill and knowledge and creative talent than previously.

Now, the great thing about the new world economy is that if you have a product to sell or a service to sell that is highly valued, you can sell it all over the world now, not just in your own country. The good thing to look forward to is that there are going to be millions of new middle class consumers developing in Asia and elsewhere over the next few years, wanting these new high quality products as they become not just producers of their own goods, but consumers of our goods.

And the great thing that Britain's got to offer is if you look at these high technology and creative industries, we are well placed. So the question is, which party or which government has the right policies for taking our economy forward to the next stage? Who is able to invest

in the education talents and creative potential of our country? And who has a sense of how we can actually be successful in this new age?

That was the question of the previous two elections, and more so because we're at a very important point in the development of the global economy, this is the question for our time: which policies will take us through to the next stage?

I believe that we're going to be able to show that we can both develop and harness the creative potential of this country, while at the same time making sure that that talent can come through, through proper investment in education.

FT: I think you're being rather modest, prime minister. In 2005, you did a brilliant job of painting the Tories as the party of spending cuts. Aren't you going to do the same next time?

GB: Well, the biggest parallel with then and now is what's happening this year. The Conservatives are actually proposing even at the deepest points in difficulty for the economy and even when people need the support of government when markets fail and banks collapse, they're proposing to cut spending now. So they would not have given the support. They wouldn't have nationalised Northern Rock, and we had to. They wouldn't have given the levels of support that we have given in the recapitalisation scheme to our banks, but we had to do that. Incidentally, we are getting returns on our fees from what we are doing as bank shares are also going up.

And at the same time, our opponents would not have created the measures that help homeowners and the unemployed. I mean, this is the testing point for your philosophy, as to whether it is right to help people in a point of need and difficulty or whether a government should walk away and let the recession take its course. And if we are proved right, that it has been the best policy to take measures here but also to persuade other countries to do so, we would neither have had the intervention here that has been necessary nor the pressure for co-operation around the world that we have been at the heart of as the chair of the G20.

FT: It's perfectly possible to say that you've got it right now, but it's going to be very painful later in terms of the fact that you're going to have to cut. The word you won't use, prime minister, is 'cut'. Is this a banned word?

GB: Some departments in the last round of public spending had a settlement that was lower than the previous round. So there's no problem about saying you've got to make the right decisions about the priorities for the future. But there is a huge amount of uncertainty at the moment, about levels of employment, about levels of growth.

One thing is absolutely clear, this would be the wrong time simply to exit from policies that are necessary to keep the economy moving. And as I said, Britain is not in a unique position here. We're in a similar position to America, France, and Germany roughly speaking in terms of our debt. We're a lot lower of course than Japan and Italy, as I've said.

And all of us will be looking at what we can actually do in the future, and we'll take it in a responsible way. I've said hard choices and difficult choices will have to be made, but the question really is this, the question for the future and why I think this government can answer these points is who is most likely to achieve the levels of sustainable growth that are necessary for the future? Who is putting in place the policies that are necessary for growth to

recover and to make sure that our economy can get the benefit from the changing global balance and particularly the rise of Asia?

I believe our focus on education and on getting young people the qualifications for the labour market, our focus on science and creative talent, our support for innovation and for investment, these are the ways that we as a government can help the huge enterprise and dynamism that exists in Britain.

Look, we're leading the way in many areas of the low carbon sector. We're leading in many, many areas of creative industries. Our pharmaceutical and biotechnology industries are among the world leaders. We're second with America; we're with America as the top two countries in aerospace, so we are in a position to produce for the world what the changing world economy is going to need, and I think you've got to recognise that that cannot be done without the support of government in key areas, and that's why our policies are right for the future.

FT: So, in effect, you're saying, prime minister, that you want to fight the next election on the grounds of Labour investment versus Conservative spending cuts?

GB: I think you'll find that the issues in the next election are in fact far broader than that.

FT: Narrowly defined?

GB: No, I don't actually agree with your definition. It's who is going to make the country best equipped for the challenges that it faces ahead? Look, if we stopped investing in employment and education opportunity now, and cut the various programmes that we put in place – more young people going to university and college, more apprenticeships in a time when companies are finding it difficult to do so, education and maintenance allowances to enable people to stay on in school, summer school leavers getting something that doesn't leave them unemployed – that would be a very, very bad signal about what the future of our economy is going to look like.

People remember the lessons of the 1980s and the '90s, that we do not allow long-term unemployment to rise, but you give people and make them responsible for getting the skills that are necessary. That's why I said, people under 25 who have been unemployed for a year will get the chance of a job or training, and we will provide that as a guarantee, but in return, they've got to take up that offer. They cannot refuse that offer, so there are opportunities that we are prepared to sponsor, but these require people to meet the responsibility that if you're offered that, you've got to take that up. So it's a pretty tough policy for young people who might think that they might be better off doing nothing.

FT: And, if this investment requires taxes to go up?

GB: We've already made announcements about that taxation, and we just talked a few minutes ago, about raising the top rate of tax, and that was a difficult decision. We've also had to make other difficult decisions, on alcohol and petrol and so on. These are decisions that other governments, of course, are having to make as well, as a result of the costs of dealing with a recession, but any further decisions that we have to make are a matter for future budgets, and pre-Budget reports.

FT: So, no promises on tax, then?

GB: I think you can see that we have tried to make sure that the people on modest and middle incomes are best protected. At a time when you've got a recession, and people who have got wealth, even though we do not like doing so, they are better protected against the circumstances of the time, than people on middle and modest incomes, and so we've had to take these tough decisions. But all the time, we've tried to protect people who are losing their jobs, to help them get another job. We're trying to help young people, so that they are not without work and without hope, and we've tried to help people on middle and modest incomes, by the measures that we've taken on home ownership, and in other areas.

FT: Just one last question on the exit strategy, prime minister. Do you not have some sense that actually around election time, or at least the last date at which you can hold an election, some of these decisions are going to have to have been taken about exits?

GB: We're not afraid to take any decision that is necessary for the future of this country. If I had been worried only about popularity over the last years, most of the decisions that we have had to take would have been avoided, and I've taken all the difficult decisions. We've not shrunk from the difficult decisions.

FT: What do you think was the most difficult?

GB: The intervention in the banking system that we took. We moved ahead of any other countries. We didn't know that other countries would follow. If you've got a situation where one day banks tell you they've got plenty funds to enable them to continue without needing any government help, and then the next day, you're told that you are facing probably the worst financial losses and level of impaired assets that your country's ever seen, you've got to take quite difficult decisions, and before the rest of the world had really considered that we had to move from simply giving liquidity to banks, to restructuring banks, we made up our mind to do so.

Now, it was not inevitable on these days we made these decisions . . . that the rest of the world would follow us, and it was not therefore inevitable that Britain was going to be seen to have done the right thing, but we managed to work with other countries, persuaded some of them, but equally some of them were already considering these things, and the stability of the banking system and all the stabilisation of the banking system caused a lot to these difficult times, and the hard decisions we've had to make.

FT: Is that why the details of the asset protection scheme have still not been finalised, and indeed, you've got them to the point where Lloyds, for example, is suggesting it may not need to take part?

GB: There's a difference between the initial recapitalisation and the arrangements in effect for the insurance of their assets, and there will always be a debate about different aspects of the asset protection scheme. The original restructuring of the banks was eventually welcomed by everyone.

It was an important moment in recognising that if markets fail, there is a responsibility on our part. But what we recognised over this last year is that banks are so interlinked, and the

financial system is so entangled, that one institution can rapidly affect the fate of another institution, and therefore the global regulatory system has got to change.

The Financial Services Board, it used to be the Financial Services Forum, will have to take on more responsibility. I've got no doubt about that. The IMF will have to be restructured for a new period, and I know I've talked about this for ten years, and tried to persuade other countries of the necessity for this. It's got to be involved in crisis prevention, as well as crisis resolution, in a way it's never really been.

When the IMF was formed in 1945, the scale of resources available to it was about 4 per cent of world GDP. At the moment, it's only 1 per cent. So, there is an issue about whether our international institutions are properly resourced to deal with the problems that we face, and I think as part of any global compact for the future, we've got to face up to that question.

We've got to face up to whether there is an insurance system for individual national economies, that would give them far better protection than the costly and somewhat unproductive way they've got to hold reserves, and I think that is a real issue for the world economy, as well as the imbalances, the level of seven trillion in reserves that we now have.

FT: You have just come back from Afghanistan. Do you anticipate a big change of course in the conduct of the war following the McChrystal Review?

GB: What we have been proposing for some months now is at the heart of the McChrystal Review and that is that the Afghan people themselves, that is, the army and the police, and local people have got to take far more responsibility for their own affairs, and that we need to increase the Afghan army and the Afghan police in its numbers and its quality.

We need about 400 district governors around the country that can actually wield authority against Taliban justice in some of the areas of the country. We need to see people having a stake in the future as Afghan citizens, in legitimate activities, in farming and elsewhere. So, if we are going to make Afghanistan and Pakistan more secure against a terrorist threat being launched from there on our country, we need to make sure that the Afghans themselves are able to and are trained to, in the case of the army, take more responsibility for their affairs. I would see the army, as I said on Saturday, rising by about 50,000 over the next year. We're training them at the level of 2,000 a month at the moment. We've got to double that at least, so that we can have an Afghan National Army in places where at the moment people are relying totally on the British and Allied troops.

FT: Do you see us withdrawing or increasing our level of troops in the next six months?

GB: I don't think that's a debate that we can resolve, until we've seen the full details of the McChrystal Review. There's definitely a shift in the emphasis, so that we spend more of our resources training large numbers of Afghan armed forces, and that will show that things are not static, as far as the allied operation in Afghanistan has happened. It's actually moving things forward by making sure that Afghanistan is in a better position to run its own affairs. Now, that will demand action on corruption at the centre. It will demand proper District Governors in place at a local level, but it will also mean that the Afghan army has got to be stronger.

FT: Is this election legitimate?

GB: From where we were, the Afghan Taliban wanted to prevent the election taking place. We've just got to remember what the basic position is. The Taliban tried with violence to stop polling stations being opened and actually having people voting. As it happened, there are 6,000 polling stations open. Also, the Afghan security forces were able to run the elections.

We've got to wait to see the full report about what actually has happened in different places, but the very fact that there was an election against a hostile insurgency that was attempting to defeat the election in the first place, is something that we've got to evaluate. The post election situation has got to show that the Afghan people can actually take more responsibility for running their own affairs, and democracy in Afghanistan has got to be about a state that is effective. Local government that works. Civil and civic institutions, schools, hospitals running properly, and of course then policing being done in a way that is not corrupt. These are all tests that will have to be met in the future.

FT: If Karzai has stolen the election, as some say, how can any of these other things flow?

GB: That wasn't the initial finding of the European Union monitors, that there had been excessive fraud, but we have got to wait for those reports that come from the ground, and we can't actually prejudge this.

However, when you look at the situation on the ground in Afghanistan, you've got to acknowledge that eight years ago, girls couldn't go to school, and now there are a million girls at school, six million children at school, and we think about 80 per cent of the population of Afghanistan is now covered, in terms of health provision. We've just been involved in an agricultural project that has helped 30,000 farmers who might otherwise have been involved in poppy cultivation grow wheat. The harvest has been good, and they are doing well out of what has been a higher wheat price. So as you look at the changes that are taking place in Afghanistan, we've got to acknowledge that there are measures of progress, but we are still dealing with a terrorist threat, that could equally lead, if unchallenged, to al-Qaeda and its allies in the Taliban, but al-Qaeda particularly threatening us in the streets of our own country.

FT: The new head of the British Army suggested that British troops could be there for decades in Afghanistan.

GB: The new strategy, and one that we've been pushing, and I think the McChrystal Review will confirm this, is to make sure that more Afghans more quickly take responsibility for their own affairs. So, if you've got an army that's now 80,000 where it used to be a lot lower, and is going up to 130,000, 90,000 probably going up to about 135,000 within just over a year, you will see quite good progress in a far shorter period of time, in the way Afghans can be expected to run their own affairs.

FT: Prime minister, is it not the case that your predecessor as prime minister agreed with the Libyan leader that there would be a normalisation of relations between Britain and Libya, and as part of that agreement, there would be a prisoner exchange, which could include Mr al-Megrahi [the Lockerbie bomber]? So, it's not a quid pro quo, there was no explicit arrangement? Is this not actually what the arrangement was?

GB: I met Colonel Gaddafi at the G8 in Italy, and I made it absolutely clear to him then that this was not a decision – the future and fate of Mr al-Megrahi – that we as the United Kingdom could take. It was a matter for the Scottish Executive, and it was their decision, and

their decision alone that would decide it, and so if I'm saying this directly to Col Gaddafi, and making it clear that that is the correct position, then I think that also makes it clear, that we as a British government were never in a position to say other than that this was a decision that rested with the Scottish administration.

FT: And, he didn't say to you, well, you can kiss goodbye to those oil contracts?

GB: I discussed the issue of the prisoner, which he raised with me, and of course I expected him to raise with me, in context and totally separate from any other issue, and this was dealt with as an issue where I could not say to him anything other than, the Scottish Executive will make that decision.

FT: Thank you.

GB: I'd like to emphasise the importance of Pittsburgh. [There are] two other aspects of Pittsburgh, which I think do make a very important moment for the world economy. We can prove that we can take action that helps stabilise the banks, but what we've now got to prove, and when I say that there's no return to business as usual, is that we can create and make possible durable growth.

That requires, in my view, in the future trigger points where the world is prepared to take action that certain things are happening or not happening, and that requires us to agree that there can be areas where working together, if we see things deteriorating, or if we see things that need to be done, we as a world community can make decisions.

That has not been the case about world economic management before. We have in the past tried to reach agreements about certain things, but we need to be more definite about how we can deal with imbalances, how we can make the use of reserves, which is an unproductive way of using our assets, less necessary, by giving people proper insurance against the possibility of instability, and we have to look at how the world institutions themselves, the global institutions, can be strengthened in such a way that they can take the action that is necessary, when it becomes necessary.

FT: Give me a couple of examples of those trigger points.

GB: When I say trigger points, I'm saying the world must be prepared to recognise a problem and take action if certain things happen, so I could argue, for example, that if imbalances reached a certain level, then we should be prepared to deal with problems that arise for surplus and deficit countries.

I could argue also in other areas, it's necessary for the world to consider acting. If, for example, we don't see distressed assets being cleaned up quickly enough by certain countries, or certain financial authorities, then we've got to consider that the world will act to make sure that people accept the responsibility that action has got to be taken in these circumstances.

I also believe that there are other areas where the world can show it can work together, so we've got to move beyond saying that we will do everything in our power to achieve something, to saying, if something happens, this will be the trigger for us acting productively.

Just as I've always said, that the Financial Stability Board, which used to be the Financial Stability Forum, must have a role in recognising when a crisis is about to emerge and giving us proper early warnings, so the world has got to be more coordinated in its action. It has got to make sure that there is a form of global economic governance that people can have confidence in, without diminishing people's right to make their own national decisions, and of course, you could say equally that there's got to be greater coordination on the exit strategy, which is the same thing.

So, when I put that set of proposals in line with my banking and finance proposals, I'd also like to mention a third set of proposals, and that is in relation to the low carbon economy, because if we are looking for the sources of growth, then Pittsburgh and the week of the United Nations has also got to be a point at which we recognise that unless we take further action now, in setting our agenda for Copenhagen, then we run the risk of not being able to reach that agreement at Copenhagen, so I would like to have a discussion, particularly on the financing of the climate change proposals.

I have put forward my own proposals. I've suggested how we can build on what came out of Mexico and what's come out of Norway. I think my proposals and combined with those that have come from these other countries, are at least a good starting point, for showing the emerging markets in the developing countries, that we are serious about them coming into an agreement, and I think I'd like to see some progress made on that in the week of the United Nations.

President [Barack] Obama has agreed to put this on the agenda, and indeed initiate putting it on the agenda at Pittsburgh, so you've got these three issues that show no return to business as usual, and show that there is an opportunity to be part of a process, to create durable growth for the future, and that will be moving things on in a way that we haven't done before.

FT: On that second point, balances, clearly that's a position for the IMF to be able to speak up, and that's what you want?

GB: There's various ways you can do it, and not necessarily the IMF, but that's one of the ways.

FT: Thank you very much.