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Professor: 2011 budget sets even stricter austerity measures

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Harvard Business School Professor Christian Ketels

Despite the painful budget cuts implemented previously, 2011 budget provides even more stricter austerity measures, believes Harvard Business School Institute for Strategy and Competitiveness senior researcher Christian Ketels.

The professor said in an interview with the agency *LETA*, he sees no alternatives for budget cuts.

The past road of Latvia was not sustainable, therefore currently there are two options, first – to keep the expenditures, but I do not see where money might come from in this case, second – to cut the budget and make structural changes, says Ketels, who along with other international experts participated in the Latvian Prime Minister's chaired high level working group.

He expresses his hope the government will develop the next year's budget as soon as possible.

Regarding budget consolidation, Ketels invites not to neglect future growth strategy. To his mind, **private companies can take a significant role in this matter; however, they should** inform about the issues going on in the industry instead of asking money or security programs from the government. For example, similarly as the government has education strategy, universities have programs – companies have to indicate what kind of employees they need and assess their own possibilities of helping labour development programs. Companies can point at infrastructure needed and which regulation interfere with the business most.

He believes there is a certain threat the government might focus on budget and fiscal policy too much, although structural reforms and growth strategy are necessary as well.

To a certain extent budget or government cuts are simple although painful measures. Competitiveness improvement is a marathon – it takes much time and it is difficult to control it. Some states recover slowly, but I lay big hopes on Latvia as you are in the European Union and you have survived the crisis, says Ketels.

When asked whether from the perspective of competitiveness it is correct to raise taxes, he admits expenditure has to be cut and revenue – increased in order to balance budget. The question is of how to raise taxes so that the impact on economy would not be so grave, adds the researcher, stressing the necessity to improve tax administration simplifying the system.

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