

Kudrin's Wake-Up Call

By [Alexander Golts](#)

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United Russia's "Triumph of the Will" convention on Saturday caused quite a sensation. Obviously, I am not referring to the decision by President Dmitry Medvedev and Prime Minister Vladimir Putin to switch places in 2012. Perhaps the only people who were surprised by Putin's decision to return to the presidency were analysts at the Institute of Contemporary Development and other members of "Medvedev's Party" — a group to which, as Putin himself confirmed during his speech at the convention, even Medvedev himself never belonged.

The bigger sensation was Finance Minister Alexei Kudrin's announcement on Saturday that he does not want to work in a government headed by Medvedev and his resignation on Monday night. Kudrin on Saturday painted a very bleak picture of an impending economic catastrophe in the country because of plans to spend trillions of rubles that Russia cannot afford on social programs, a giant Pension Fund deficit and the reckless expectation that record-high oil prices will cover budgetary losses from inefficient spending.

But Kudrin's biggest concern was the impact that the country's sharp increase in military spending would have on the economy. According to Kudrin, the steep rise in military

contracts to modernize the army, military pensions and outfitting the defense industry with new technologies will increase budget outlays by about 1.3 percent of gross domestic product in 2012, and by 3 percent, or 2.1 trillion rubles (\$65.4 billion), by 2014.

“That is equal to all funding of the entire education system for 2011, including all universities, all schools and special educational establishments,” Kudrin said. “That is, for three years we will spend a sum equivalent to the funding of the entire education system.”

In reality, however, it was Putin and not Medvedev who approved the increase in military spending. Therefore, any talk of a difference between Putin and Medvedev on defense expenditures is meaningless. The real reason for Kudrin’s sharp statement is that he does not want to be held responsible for the looming financial disaster that the Putin government is provoking.

It is no wonder that Kudrin placed so much importance on wasteful spending on defense. The re-armament program alone will cost 20 trillion rubles (\$623 billion) from 2011 to 2020. These expenditures were approved despite the fact that all previous weapons programs have ended in complete failure. The plan is being implemented at a time when arguments between the Defense Ministry, military design bureaus and manufacturers over the exorbitantly high price of weapons systems reached their peak this year, resulting in many contracts going unfulfilled.

Putin is more responsible than Medvedev for this state of affairs. After all, it was during Putin’s presidency that the defense industry became a parody of the Soviet military-industrial complex. Several hundred defense companies were corralled into state-owned conglomerates, destroying the remaining elements of competition among military firms. The majority of companies that were merged into state-owned giants were highly ineffective and on the verge of bankruptcy. As a result, the end price for any piece of military equipment — from missiles and armored transport vehicles to combat aircraft — included not only the amounts that were stolen, but also the huge operating losses of inefficient factories.

Kudrin could not remain silent anymore on the massive waste and inefficiency in the defense sector, and there is a good reason for this. He understands perhaps better than anyone that Russia’s fiscal ship is sinking, and he has decided to jump overboard while he still has an opportunity.

Kudrin is the first to jump ship. Who will be next?

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